

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

U.S. budget deficits:
a vital factor for
Europe, Page 15

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World news

Business summary

Expulsions 'should not harm UK Soviet ties'

Britain expressed the hope that the flurry of diplomatic expulsions from London and Moscow would not mar the improvement in Anglo-Soviet relations.

Sir Geoffrey Howe, UK Foreign Secretary, said Britain's efforts to improve relations with Moscow would be maintained.

The Soviet media have yet to refer to the round of expulsions. Background Page 2

Star wars decision

The reactivated Western European Union postponed adopting a common position on the U.S. offer to take part in star wars research programme, mainly on UK insistence. Page 2

Arms adjournment

The U.S. and Soviet Union adjourned nuclear arms talks until May 30 with neither side appearing to have moved from its starting position. Page 2

Hi-tech initiative

France is planning an urgent start to talks with interested EEC partners on its "Eureka" initiative for high-technology collaboration. Page 2

Delors attack

Jacques Delors, EEC Commission president, launched an attack on U.S. economic policies before the Senate Finance Committee. Page 3

Israeli withdrawal

Israeli troops are set to abandon positions in eastern Lebanon, ending their threat to Damascus which was within range of Israeli artillery. Page 4

Samery support

Politicians and businessmen in Brazil publicly rallied around new President Jose Sarney, in a display of solidarity. Page 3

Police dismissed

Mexican authorities have dismissed a state police force for corruption and abuse of authority. Page 3

China action call

China told the Soviet Union that it must take action if there is to be a significant improvement in relations. Page 4

Ports paralysed

Spain's main ports were paralysed by a one-day strike by stevedores over a government plan to privatise management of their work.

Indian riot deaths

More than 15 people were killed in the western Indian state of Gujarat in riots over privileges promised to the lowest castes. Page 4

Corsican bombing

A bomb badly damaged a French government building in Bastia, Corsica. Police suspect the Corsican National Liberation Front which has been campaigning for independence from France.

Soldiers killed

Two British soldiers were killed and six injured when a truck overturned near a British Army base at Semmelager, West Germany.

Brake time

Peking's bus drivers began a go-slow protest about pay and bonuses, a Chinese trade union official said.

General Motors earnings plunge

GENERAL MOTORS, leading U.S. car company, suffered a 34 per cent earnings setback to \$1.07bn in the first quarter, against \$1.61bn a year ago. Sales rose to \$24.2bn against \$22.8bn previously. Other U.S. corporate results, Page 17

WALL STREET: At 3pm the Dow Jones Industrial average was up 5.41 at 1,271.97. Section III

DOLLAR was firmer in London, closing at DM 3.072 (DM 3.011). SwFr 2.5475 (SwFr 2.4935), FFf 9.385 (FFf 9.195) and Y249.55 (Y248.55). On Bank of England figures, the dollar's exchange rate index rose from 143.3 to 144.9. Page 37

STERLING fell 2.55 cents against the dollar in London to close at \$1.252. It was also weaker at DM 3.845 (DM 3.8475), FFf 11.72 (FFf 11.77) and Y312.25 (Y317.5) but improved to SwFr 3.1925 (SwFr 3.185). The pound's exchange rate index fell to 78.8 from 79.3. Page 37

GOLD fell \$3 an ounce on the London bullion market to finish at \$326.50. It also fell in Zurich to \$326.25. Page 36

LONDON fell for the third consecutive session leaving the FT Ordinary index down 12.0 at 959.6. Small losses were registered among short and longer dated gilts. Section III

TOKYO stocks retreated with most institutional and individual investors remaining out of the market. The Nikkei-Dow average dropped 53.78 to 12,124.14. Section III

FRANKFURT shares found further demand, taking the Commerzbank index up 0.3 to a second successive record high of 1,230.4. Section III

SPOT OIL prices weakened amid reports that Egypt planned to cut the official price of Suez Blend by 75 cents to \$28.75 a barrel for May shipments.

THE HANDELSBANK firmly rejected the idea that West Germany should boost its economic growth rate by running higher public sector deficits. Page 2

BANQUE INDOSUEZ, French banking group, boosted consolidated net profit 34 per cent to FFf 505.3m (\$55.5m) for 1984. Page 18

MERRILL LYNCH, world's biggest brokerage firm, struggling to control its rapidly rising expenses, nearly tripled first-quarter net income to \$55.5m. Page 17

TWO MEN accused of tax and currency offences in a case involving Citibank have been jailed by a Milan court. Page 2

KABIVITRUM, Swedish pharmaceuticals group, withdrew its most profitable product, Crescomon, from world markets after suggestions in the U.S. that it can cause a fatal brain disease. Last year almost 60 per cent of the company's profits came from sales of the drug, used in the treatment of dwarfism. Page 18

STOCKHOLM emerged as winning bidder for a 22 per cent stake in Stock Conversion and Investment Trust, one of the UK's largest property groups. See, Page 16; Details, Page 23

INTASUN LEISURE is to buy Global Tours, Great Universal Stores' tour operating offshoot and one of Britain's biggest coach operators.

HONDA MOTOR, Japanese car and motorcycle manufacturer, boosted consolidated net income 34.5 per cent to a record ¥128.5bn (\$495m) during the year to February 28. Page 19

BASF and Hoechst, West German chemical companies, returned sharply increased annual earnings and substantially lifted dividends. Page 18

DIGITAL EQUIPMENT, second largest computer maker in the world, reported a 10 per cent decline in third-quarter earnings to \$61.09m, despite an 18 per cent gain in revenue. Page 17

Gorbachev makes sharp attack on U.S. arms policy

BY PATRICK COCKBURN IN MOSCOW

MR MIKHAIL GORBACHEV yesterday launched the sharpest attack on U.S. policies he has delivered as Soviet leader, accusing Washington of having no interest in reaching arms control agreements; of violating the conditions of the Geneva arms talks and of failing to respond "with any gesture of goodwill" to Soviet initiatives.

The salvoes were delivered at the first meeting of the Communist Party's 300-member Central Committee under Mr Gorbachev's leadership. With its monopoly of political power in the Soviet Union, the committee appointed three of Mr Gorbachev's close associates to the ruling Politburo: Mr Yegor Ligachev, formerly the committee's head of personnel; Mr Nikolai Ryzhkov, head of its Economics Department; and Mr Viktor Chebrikov, head of the KGB. Marshal Sergei Sokolov, the Defence Minister, was made a non-voting member of the Politburo.

The appointments are seen as strengthening Mr Gorbachev's ability to carry out changes in the personnel and policies of the Communist Party and Government.

Delivered on the closing day of the first round of arms talks in Geneva, the Soviet leader's speech was notable for its flat assertion that "Washington does not seek agreement with the Soviet Union."

Mr Gorbachev said that the U.S. had refused to discuss in Geneva the prevention of the arms race in space simultaneously with the limitation of nuclear weapons on earth.

In the first direct accusation by the Soviet leader that the U.S. had broken the agreement to start the talks in Geneva, Mr Gorbachev said Washington "violates the accord, reached in January, on the interconnection of the three subjects - on the prevention of the arms race in space, on nuclear strategic arms reduction and reduction of medium-range nuclear armaments in Europe."

In explaining the U.S. stance, Mr Gorbachev repeated the continuing Soviet theme that the U.S. wished to change the balance of power in the world against the Soviet Union.

He recalled that Moscow had declared a freeze on the deployment of its own medium-range missiles.

"The Government of the U.S. has not responded to any of these initiatives with any gesture of goodwill. Standard and customary 'No's' to Soviet proposals clearly show the United States' reluctance to lead matters to reasonable results."

The leader, who did not mention a possible meeting with President

Reagan, said the Soviet Union hoped the current U.S. attitude "would be corrected."

He said: "This would open an opportunity for achieving mutually acceptable accords. We, for our part, are prepared for this."

He went on to promise the Soviet armed forces all the support they needed, although in recent weeks the Soviet leaders have stressed that military allocations depend on the growth of the economy as a whole. Defence is estimated to account for some 13 per cent of Soviet gross national product.

Although the Kremlin may have decided that no substantive negotiations are likely in Geneva, Mr Gorbachev has been eager to seize the initiative in foreign policy by agreeing to go to the United Nations General Assembly meeting in New York in September where he is likely to meet President Reagan.

The additions to the Politburo follow recent changes in local party leadership which have linked together the need for economic reform with a campaign against corruption.

Continued on Page 16

Daimler-Benz to buy 68% stake in Dornier

BY JOHN DAVIES IN FRANKFURT

DAIMLER-BENZ, the West German motor vehicle group, has agreed to take a 68 per cent stake in Dornier, the aerospace company, where the family shareholders have been engaged in a bitter feud.

The move represents a broadening of Daimler-Benz's involvement in high-technology areas alongside its passenger car and commercial vehicle business. Only two months ago it bought out its partner in MTU, the aero-engine and diesel-engine maker.

Daimler-Benz has not disclosed how much it proposes to pay for its majority stake in Dornier, but the state government of Baden-Württemberg has agreed to pay DM 23m (\$6.6m) for a 4 per cent stake. On that basis, the Daimler-Benz purchase would amount to about DM 400m.

The proposed deal would leave 20 per cent of Dornier in the hands of Herr Claudius Dornier and 8 per cent with Herr Silvanus Dornier. They are two of the six family members who have been wrestling for control of the aircraft maker and space technology concern.

Family members have a first option on share sales, but all - with the exception of Herr Claudius Dornier - have so far approved the Daimler-Benz deal. The major white-hot concern said it was confident that Claudius Dornier would go along with the agreement.

Dornier, which had sales revenue of DM 1.5m last year, was founded by Herr Claude Dornier, an aviation pioneer, more than 50 years ago.

Long-running conflicts between his heirs led to concern among the workforce and in political circles about the company's future. Anxieties grew when Herr Manfred Fischer, the newly appointed chief executive, was abruptly dismissed recently - only to win a court order invalidating his dismissal.

With some family members tired of the wrangling and willing to sell out, Herr Lothar Späth, prime minister of Baden-Württemberg, took the initiative of bringing them together with Daimler-Benz for protracted negotiations.

Herr Späth was anxious that control of Dornier should remain in the hands of business interests in his state.

Mannesmann, the engineering group, tried to buy a stake in Dornier but was rebuffed yesterday that it had withdrawn its offer after it was clear that it could not get a majority holding.

Daimler-Benz said Dornier, which has 9,000 employees, would continue as an independent entity.

The motor vehicle concern, whose sales reached DM 43.3bn last year, sees Dornier as a further opening into future-oriented technologies.

Daimler-Benz's prestige car business has been going ahead strongly, while its commercial vehicle business slipped in recent years as a result of recession and the international payments problems of developing countries.

MTU's aero-engine operations are seen as supplementing Dornier's activities. Daimler-Benz and MAN, its truck rival, each held 50 per cent of MTU, but with MAN climbing back from serious difficulties Daimler-Benz saw an opportunity recently to take full ownership.

Dornier family ties, Page 18

Unocal unveils new defence

BY WILLIAM HALL IN NEW YORK

UNOCAL, the U.S. oil company under attack by a group of corporate predators led by Mr T. Boone Pickens, the Texas Oilman, yesterday unveiled its latest defensive play and announced plans to buy back nearly a third of its equity for a \$3.5bn package of bonds.

Unocal said it would purchase 50m of its 173.9m outstanding shares for \$72 a share in a tender offer, notes whether or not Mr Pickens's Mesa group is successful in its bid to buy 64m Unocal shares at \$54 each.

The latest move is a variation on last week's announcement that Unocal would buy back the remaining 40 per cent of its shares for \$63.75 of debt. If Mr Pickens succeeded in winning majority control of the company, that would have left the oil company heavily indebted and

made it much less attractive to Mr Pickens.

In an unusual move, Unocal stressed that it would not accept any of Mesa's 23.7m shares for exchange into its debt securities. That would put Mr Pickens at a major disadvantage because the value of the remaining shares would be expected to fall after the transaction.

It was unclear last night whether Unocal had the power to disenfranchise its biggest shareholder, which controls 13.5 per cent of the company.

Mr Pickens described Unocal's earlier conditional offer to buy back its shares at \$72 as a "phantom offer" and said it was designed to prevent share holders from receiving \$54 a share cash. Several major institutional shareholders are known to sympathise with Mr Pickens and

are angered by the company's "scorched earth" tactics, which appear designed to fend off Mr Pickens at all costs.

Before the Mesa bid Unocal shares were trading in the low \$30s range, and Unocal's major institutional shareholders are well aware that the share price would collapse if Mr Pickens walked away from the fight.

In early trading yesterday Unocal shares rose \$14 to \$49.

Mr Pickens started a \$1.6bn lawsuit against Unocal's defensive tactics and stressed that Unocal had yet to offer an economically viable alternative to his \$54 a share cash offer.

Mr Pickens is urging Unocal shareholders to vote for an adjournment of next Monday's annual meeting.

Coca-Cola hopes to add fizz with new formula

By Paul Taylor in New York

COCA-COLA'S effervescent Cuban-born chairman, Mr Roberto Goizueta, made history yesterday. Ninety-nine years after an Atlanta pharmacist and patent medicine salesman, Dr John Pemberton, cooked up the first brew of Coca-Cola in a three-legged brass pot, Mr Goizueta announced that the world's largest soft drinks group had changed the still-secret Coca-Cola formula.

Confirmation of the widely leaked change came at a New York press conference at which Mr Goizueta presented a new, sweeter-tasting Coca-Cola, which the consumer giant billed as "the most significant soft-drink development" in its history.

Mr Goizueta, who inherited the number one job at Coca-Cola in 1981, said the new secret formula, developed over the past four years, will sit alongside the old, known as "Merchandise 7X", in the downtown vaults of the Trust Company of Atlanta, Georgia.

Although Coca-Cola has made a number of slight changes to the formula, mostly believed to have involved minute changes in caffeine and sugar content over the years, the latest change is generally viewed as the most significant since the company withdrew the minute traces of cocaine in Coca-Cola in 1903.

Mr Goizueta described the new taste Coca-Cola as, "smoother, rounder, yet bolder - a more harmonious flavour." He indicated that the change had been approved earlier this year by the legendary Mr Robert Winship Woodruff, the 94-year-old patriarch of the company who helped to build Coca-Cola's unrivalled world distribution network in the war years.

But the Coca-Cola chairman strongly denied that change came in response to market pressure from Coca-Cola's arch-rival, Pepsi Cola, which has been challenging Coca-Cola's market supremacy in some areas.

He denied that Coke "had taken the Pepsi challenge," insisting that the change was prompted after extensive consumer testing which found that the new formula was preferred to the old by 65 of every 100 customers.

Nevertheless, the new Coca-Cola marks a further intensification of the soft-drinks war. Yesterday, Pepsi took out full-page advertisements in U.S. papers declaring: "After 67 years of going eyeball to eyeball, the other guy just blinked."

Renault shows record loss of \$1.36bn

BY PAUL BETTS IN PARIS

RENAULT, the motor group long championed by the Socialists as the symbol of successful state ownership in France, last night reported record losses of FFf 12.55bn (\$1.36bn) last year compared with losses of FFf 1.57bn in 1983 and FFf 1.28bn in 1982.

The 1984 losses include a huge FFf 9.8bn deficit in the group's traditionally profitable car division at a time when Renault's main rivals in Europe and the U.S. have staged a strong financial recovery. Renault's car operations earned the group FFf 674m in 1983.

M. Georges Besse, Renault's new chairman, was judged last night to have deliberately sought to clean the group's balance sheet by making heavy provisions of FFf 4.5bn to cover the cost of job restructuring and reduce financial charges, which last year totalled FFf 3.9bn, or the equivalent of 3.3 per cent of Renault's group sales of FFf 117.6bn.

M. Besse, who took over of Renault last January after the forced resignation of M. Bernard Hanon, is now seeking FFf 8bn in immediate support from the French Government to cover the group's 1984 accounts. Renault, which spent FFf 9.9bn in new investments last year, is also expected to need additional support if it is to maintain its current annual investment rate of about FFf 10bn.

The record losses and Renault's fresh calls for funds is bound to be used by the French right-wing opposition as further ammunition against Socialist nationalisation policies in the run-up to next year's general elections. The Government, however, is also claiming that a number of nationalised industrial groups, with the exception of the steel and car sectors, have returned to profit.

Renault reported its losses after a long-awaited board meeting, but M. Besse did not use the occasion to outline his recovery strategy. Indeed, the former chairman of the nationalised Pechiney aluminum group has been keeping his cards close to his chest since taking over at Renault.

M. Besse, whose immediate priority is to resolve Renault's financial difficulties, has been conducting a detailed review of the group's worldwide operations. He is generally expected to seek to restructure the group on its traditional car assembly operations.

Although no big decisions have yet been taken by M. Besse, he is clearly reviewing the future of Renault's extensive U.S. interests, including major shareholdings in AMC and Mack Trucks.

M. Besse has also been said to be considering the possibility of closing Renault's large and old Billancourt plant in Paris, shutting an engine plant in Mexico and reviewing the group's diversifications in other

Continued on Page 16

Pretoria holds three top UDF officials

BY ANTHONY ROBINSON IN JOHANNESBURG

SOUTH AFRICA yesterday arrested the three most important officials still at liberty of the United Democratic Front (UDF), the prominent multiracial political grouping opposed to the country's apartheid policies.

The latest detentions come five days after President P.W. Botha issued a fierce attack on the UDF as "the internal extension of the African National Congress Party."

Yesterday's detentions of Mr P. P. Molefe, UDF general secretary; Mr Patrick "Terror" Lekota, the publicity secretary; and Mr Moses Chikane, the former Transvaal provincial secretary, also follow a series of arrests and harassments of other UDF leaders in recent months. The three are being held under internal security laws in connection with investigations into the outbreak of violence in the Transvaal last September.

More than 40 UDF leaders are now in jail and the authorities are planning two major treason trials later this year which will attempt to prove the Government's allegations of links between the UDF and the banned ANC, whose formal commitment to the violent overthrow of the South African Government is the basis of the treason charges.

Mr Lekota, whose nickname "terror" dates back to his earlier career as a professional footballer, was arrested at Port Elizabeth airport after

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EUROPEAN NEWS

Poehl draws firm line on boost to growth

BY JONATHAN CARR IN FRANKFURT

LITTLE MORE than a week before the Western economic summit conference in Bonn, the Bundesbank has firmly rejected the idea that West Germany should seek to boost its economic growth rate by running higher public sector deficits.

The president of the independent central bank, Herr Karl Otto Poehl, said yesterday that the so-called "locomotive theory" could well be resurrected at the summit—albeit directed more at Japan than the Federal Republic.

According to this theory,

countries with relatively low budget deficits and inflation rates should go for fiscal expansion, more economic growth and higher imports, thus helping boost the economies of their trading partners.

The theory played an important role at the last Bonn economic summit in 1978, and resulted in a West German commitment to take steps to win more economic growth costing around 1 per cent of GNP (then DM 12bn—£3.1bn). Bonn kept its promise, but made its budget difficulties worse by doing so.

In a speech before the Ruhr

university in Bochum, Herr Poehl noted that calls for a more expansionist policy by the West Germans not only came from abroad (notably the U.S.) but at home, too. However, it had to be remembered that in the mid-1970s the Government had sought to secure economic growth by running budget deficits of more than 6 per cent of GNP—compared with previous levels rarely more than 3 per cent.

Such big deficits as Bonn had at that time—and as the U.S. had now—could only be cut to a tolerable level by a very painful process, Herr Poehl said.

Moreover, that process tended to do away with any temporary benefits which the deficits might have brought in the first place.

Herr Poehl recalled that at the time Bonn had adopted a "deficit spending" course virtually no one had contradicted it—not even the Bundesbank.

His comments came at a time when West Germany is again running big trade surpluses (DM 54bn last year), its current account is well in the black, its inflation rate is down to about 2.5 per cent and government borrowing has been cut sharply in the past two

years. However, with unemployment still averaging more than 2m there are voices, even in the centre-right government parties, urging that a less tight fiscal course be followed.

In particular, there has been support for the view that Bonn should push through the whole of its DM 20bn tax concessions package next year, instead of doing it in two stages in 1983 and 1984. Dr Gerhard Stoltenberg, the Finance Minister, has been firmly against this, however, and there is no sign that the Government will adopt a different stance at the May 24 summit.

WEU nations put off adopting common stand on Star Wars

BY ROBERT MAUTHNER, DIPLOMATIC CORRESPONDENT IN BONN

FOREIGN and Defence Ministers of the reactivated seven-nation Western European Union yesterday postponed the adoption of a common position on the U.S. offer that they should participate in President Ronald Reagan's Star Wars research programme, mainly on British insistence.

Their decision means that the European countries taking part in the summit of the Western industrialised countries in Bonn on May 24 will be speaking with a variety of voices on the U.S. Strategic Defence Initiative (SDI), in keeping with Washington's wishes.

The tortuous wording of the final communiqué reflected the difficulty which the ministers from Britain, France, West Germany, Italy and the three Benelux countries had in reconciling their positions on the SDI research programme.

Herr Hans Dietrich Genscher, the West German Foreign Minister, the most enthusiastic advocate of a common European stance, was faced with the reservations of British ministers who made clear they favoured

bilateral contacts with the U.S. on the subject.

In the end, the ministers agreed "to continue their collective consideration in order to achieve as far as possible a co-ordinated reaction of their governments to the invitation of the U.S. to participate in the research programme." They also underlined the importance of continuing bilateral consultations with their partners in the Atlantic alliance "as an essential element of allied cohesion."

Mr Michael Heseltine, the British Defence Minister, tried to minimise the differences between Britain and its partners by emphasising that it was impossible for the WEU countries to adopt a co-ordinated position on participation in SDI research "until we know what the opportunities are."

Countries would now be able to explore those opportunities bilaterally with the U.S. and once these had been identified, a start could be made on co-ordinating positions. However, few ministers displayed much faith in the ultimate outcome of such attempts.

France to press forward with Eureka initiative

BY RUPERT CORNWELL IN BONN

DESPITE misgivings from Britain, and to a lesser extent the Netherlands, France is planning an urgent start to consultations with favourably disposed EEC partners on its "Eureka" initiative for far-reaching European collaboration in high technology.

Mr Roland Dumas, the French Foreign Minister, said yesterday that he was "well satisfied" with the response to the idea at the meeting of ministers from the seven-nation Western European Union (WEU) which ended here after two days.

Paris, he said, would be beginning negotiations "within the next few days" with interested parties. Among the members of the WEU, these include West Germany, Italy and Luxembourg.

Although M Dumas stressed that in contrast to the SDI, Eureka was intended primarily as a civilian venture which could have spin-off military applications, the areas on which it concentrates, among them electronics, high-performance computers and artificial intelligence

and laser technology—are precisely those central to SDI. Underlying the urgency with which Paris is pressing Eureka is the fear that with or without the SDI, Europe now faces the threat of slipping into technological dependence on the U.S., unless it can step up its collaboration and get better value for money from its research and development.

M Dumas warned that if Europe did not swiftly work out a concerted policy, it risked ending up as a mere subcontractor. "Nothing," he said, "will prevent our scientists, our capital and our individual companies yielding to the temptation of ad-hoc co-operation with U.S. contractors," thus destroying Europe's hope of retaining credibility in the field.

Britain's two ostensible complaints, it was clear last night, relate to the lack of detail about what the French have in mind, and a reluctance to make any major change in the EEC's institutional structure to accommodate Eureka.

Arms talks cordial but tough, says U.S. envoy

BY WILLIAM DUFFEL in GENEVA

THE U.S. and the Soviet Union yesterday adjourned their nuclear arms talks until May 30. In the first round lasting six weeks neither side appears to have moved from its starting position but at least a cordial working relationship has been established between Mr Max Kampelman of the U.S. and Mr Viktor Karpov of the Soviet Union.

The negotiations have been difficult, but have helped bring about increased understanding of one another's positions. Mr Kampelman said in a brief statement after a last two-hour session at the U.S. mission.

He will fly to Brussels today to brief the Nato allies before returning to Washington to report to President Ronald Reagan.

Mr Kampelman said meetings with the Russians had been both formal and informal. On one occasion he and Mr Karpov were alone in a room at one of Geneva's most reputed restaurants.

The secrecy cloaking the negotiations has been tightly maintained but some members of the U.S. team do not subscribe to the view that progress towards control of nuclear arms

is unlikely before a third round of talks in the autumn after a meeting between President Reagan and Mr Mikhail Gorbachev, the Soviet leader. "We have not been wasting our time here," one said yesterday.

Ivo Dawanay adds from Brussels: Mr Richard Burt, the U.S. Assistant Secretary of State currently chairing Nato's Special Consultative Group, said here yesterday that Geneva talks were so far only "a feeling-out process."

Although no one had expected rapid progress, the Soviet offer of a freeze on medium-range missile deployment was viewed as a propaganda play and a "disappointment" by the SGC. "It is not altogether clear to us that the Soviets intend to be serious in the negotiations," he said.

The SGC agreed that the moratorium offer was not an acceptable basis for agreement. It would perpetuate Soviet superiority in missile numbers and diminish its incentives to agree serious cuts in its SS20 missile force, and did not prevent deployment outside the European zone of the Soviet Union.

Ministers in pursuit of extra EEC farm cash

By Quentin Peel in Luxembourg

BUDGET MINISTERS of the European Community yesterday resumed their struggle to finance the inexorable increase in the cost of the EEC farm policies, facing a demand for extra national contributions of up to Ecu 2.5bn (£1.7bn) to produce a balanced budget of some Ecu 29bn for the current year.

The ultimate figure for extra cash to be approved by the 10 national parliaments is likely to be closer to Ecu 2bn, if the ministers stand by the limits they agreed last year before their draft budget was rejected by the European Parliament.

Britain, with some support from Belgium and the Netherlands, was last night fighting to reduce that gap further, in the knowledge that the farm ministers have yet to agree on a farm price package which could have the opposite effect.

The Budget Council resumed in Luxembourg to redraft a 1983 budget to end the Community's present cash rationing which restricts monthly finances for the whole range of EEC policies to one twelfth of 1982 spending. The main effect has been to prevent the launch of new research programmes agreed last December.

The ministers first met a delegation from the Parliament, which rejected the original budget for failing to finance a full year's spending, particularly on farm policies.

Mr Pierre Pflimlin, the Parliament's president, warned that the new draft must allow for the full effect of any farm price increase still being debated in the Agriculture Council. Any unbalanced budgets would risk rejection again.

He also attacked the plan to allow Britain its promised Ecu 1bn budget rebate in the form of reduced budget contributions to be financed by other EEC member states. The Parliament wants the money paid in the form of special spending schemes, as in former years.

However, the British rebate is one issue regarded as settled by the budget ministers, with a formula worked out by the European Commission to share the cost among the rest of the Community. This would increase France's contribution from Ecu 3,450m to Ecu 3,700m, for example, possibly making that country a net contributor to EEC finances for the first time.

In spite of having won its case on the rebate, the British delegation remains the sternest on seeking to hold down the rise in farm spending.

Austria acts against rise of neo-Nazism

By Patrick Blum in Vienna

AUSTRIA is launching an information campaign against Nazi ideas to counter growing neo-Nazi activity among the young. A law also to be introduced to enable the authorities to punish neo-Nazi activities more effectively.

Herr Karl Blecha, the Interior Minister, says he believes there are no more than about 200 hard-core neo-Nazi activists in Austria although the number of sympathisers may be much greater.

In recent months leaflets glorifying Nazi ideology and denying the slaughter of Jews have been distributed outside schools. The authorities have been unable to do anything about this since distributing leaflets does not represent actual Nazi activity, which is illegal but an expression of opinion.

In 1983 eight Austrians and one West German were jailed for bomb attacks on Jewish-owned shops and homes. A recent survey suggested that 15 per cent of Austrian sympathisers with extreme Right-wing and Nazi ideas.

THE EXPULSIONS OF BRITISH AND SOVIET DIPLOMATS

Cold snap in a warming climate

BY DAVID BUCHAN

THE LATEST tit-for-tat expulsions from London and Moscow are sure to have some impact on Anglo-Soviet relations, which had reached their warmest point for several years. But on past form, the effect is likely to be a temporary frostiness, rather than a lasting freeze.

The key unknown is how relations would have otherwise developed, following last December's highly successful trip to the UK by Mr Mikhail Gorbachev who even then, two months before he became Communist Party general secretary, was still the highest-ranking Soviet leader to visit Britain since the 1950s.

One immediate casualty may be the visit which Mr Andrei Gromyko, the Soviet Foreign Minister, is due to make to London this year; it would be his first trip to the UK since 1976. British ministers were not planning trips to Moscow for the time being, with Sir Geoffrey Howe, the Foreign Secretary, having just completed arduous this month his "grand slam" tour of Western European countries.

After a long gap from 1971, tit-for-tat expulsions set in with almost metronomic regularity in the early 1980s as the Thatcher Government grew concerned about underground Soviet acquisition of high-technology, some of it considered to be of military potential.

Anglo-Soviet relations were in any case soured by the crises over Afghanistan and Poland, and did not seem to be chilled much further by the expulsions.

The events over the past two years, most notably the Gorbachev visit to London, but also trips to Moscow, once by Sir Geoffrey and twice by Mrs Thatcher (for the Anglo-Soviet

Sept-Oct. 1971: 105 Soviet officials expelled; 15 British citizens expelled or visas cancelled; 13 of them diplomats and five businessmen. The UK then introduced official ceilings for Soviet officials in Britain which have been reduced with every subsequent public expulsion.

Aug. 1981: One Soviet diplomat expelled; one British diplomat expelled.

Feb. 1982: One Soviet trade delegation official expelled; no Soviet retaliation.

Dec. 1982: One Soviet naval attaché expelled; one British naval attaché expelled.

Jan. 1983: One Soviet em-

ployee at the London-based International Wheat Council expelled; one Soviet retaliation. Mar-April 1983: Two Soviet diplomats and one Soviet journalist expelled; one British journalist (Anthony Robinson of the Financial Times) expelled; one Soviet diplomat expelled.

Sept. 1983: One Soviet trade delegation official expelled; no Soviet retaliation.

May 1984: One Soviet diplomat expelled; one British diplomat expelled.

April 1985: Five Soviet diplomats and officials expelled; three British diplomats expelled.

ing Committee (CoCom).

Because the Soviet Union has probably become more rather than less dependent on Western high technology in its efforts to match U.S. weaponry advances, it will not want diplomatic relations to affect trade. Indeed Mr Gorbachev went out of his way in London to praise those European and British companies which had defied U.S. embargoes on pipeline equipment. He will probably remember with pleasure that he was loudly applauded by British businessmen for that remark.

Only in 1971 did British businessmen bear the brunt of any Soviet retaliation, and there is every sign that Moscow, mistrustful of renewing 1970-style economic ties with the U.S., wants to encourage the widest competition for its upcoming 1986-90 five year plan contracts from all West European countries, including Britain.

Finally, Mr Gorbachev, per-

haps more than his immediate predecessor, appears to realise the political mileage in wooing Western Europe, which remains sceptical about the merits of the Reagan Administration's Star Wars plans, and of a British Government which Foreign Secretary has openly voiced this scepticism.

But what still remains something of a mystery is the extent of Soviet diplomats' "misbehaviour" which Britain, in common with other Western Governments, alleges but does not publicly detail, when announcing expulsions.

This is the more curious because the Soviet embassy in London faces special penalties. The British Government has in recent years not only warned that it would retaliate against any Soviet retaliation, but has threatened to expel Soviet diplomats, but since 1971, Britain has lowered the numerical ceilings on Soviet officials in the UK by every Soviet it expels.

Thus, after the latest expulsion, the maximum number of permitted Soviet accredited diplomats comes down to 39 and the number of Soviets working in "ancillary organisations" such as the trade delegation, Aeroflot, Intourist, Fransa-Tass and so on, down to 104.

The handicap on the Soviet diplomatic, business and journalistic presence in the UK grows therefore with each expulsion. So far at least, the Soviets have imposed no such permanent ceiling on the British embassy in Moscow, which is theoretically free at some point to send replacements for the three embassy officers ordered to leave the Soviet capital within a week.

Lisbon's labour law plan raises tensions

By Our Lisbon Correspondent

PORTUGUESE GOVERNMENT plans to liberalise rigid labour laws that employers say make it virtually impossible to dismiss workers are again raising tensions within the Socialist-Social Democrat coalition and raising the prospect of widespread industrial unrest.

Leaders of the socialist trade union federation, the Uniao Geral de Trabalhadores (UGT), yesterday threatened a general strike if the Bill becomes law when it goes before parliament in May after a year of fruitless negotiation in the all-party Commission for Social Reconciliation.

The UGT, which has previously striven to avert confrontation, demonstrated the strength of its militant opposition to the measures with an unprecedented proposal to organise joint industrial action with the communist CGTP Inter-Unional Federation, traditionally a bitter rival.

Employers contend that the existing legislation is an insurmountable barrier to efficient management, enabling them to dismiss workers only in cases of flagrant criminal misconduct after tribunal hearings taking up to four years.

Church marks Popieluszko death

BY CHRISTOPHER BOBINSKI IN WARSAW

HUNDREDS OF priests led by two Warsaw bishops yesterday prayed at the grave of Fr Jerzy Popieluszko, the murdered pro-Solidarity priest, demonstrating that the crime has been firmly etched on the Polish Roman Catholic Church's memory.

The ceremony, held on the feast day of St George, Fr Popieluszko's patron, was the first of its kind since the priest was murdered. Bishop Wladyslaw Mizielek told the white-clad clergy that Fr Popieluszko's life was a reminder that "they should always be ready to bear witness to their faith."

Only the day before an appeal

court had upheld heavy prison sentences on the four security servicemen who killed the priest, Col Adam Pietruszka, the most senior and the man who ordered the killing, will serve 25 years. Captain Grzegorz Plotowski, who actually led the assault, also a 25-year term. His two subordinates will serve 15 and 14 years each.

Yesterday, in front of the white stone church where Fr Popieluszko worked and is buried, hung a picture of St George slaying a red dragon, an image which has already come to depict in the popular mind Fr Popieluszko and his clash

with the authorities.

The dead priest is also a Solidarity patron and the banned union's underground leadership in Warsaw has told supporters to gather at the church for a service on May Day after which a demonstration against food price rises is likely.

Ten ceremonies yesterday brought together a third of the clergy in the central Warsaw diocese precedes an important session of the Church-state mixed committee today. This meets at a time of tense relations between the two sides.

Ireland-Iberia pact to share TV satellite

BY BRENDAN KEENAN IN DUBLIN

AN AGREEMENT between Spain, Portugal and Ireland to share a direct broadcasting satellite (DBS) may now offer the best chance for the Irish to benefit from a programme into the potentially lucrative UK market.

Irish plans to launch a satellite by 1987 have been thrown into disarray by increasing doubts about the economics of such a project and by the difficulties the British

have encountered in trying to organise their own DBS system. Spain, Portugal and Ireland were all allocated the same orbital position under an international agreement.

One of the four consortia interested in an Irish satellite, Westsat, has been trying to interest the Spanish and Portuguese in a joint venture for some time.

The Spanish were cool at first, but their attitude seems to have

changed since a committee reported that a wholly-Spanish satellite would not be a commercial proposition.

A joint operation would require a formal agreement between the governments and broadcasting authorities of the three countries and no serious talks have yet begun.

However, the Irish Government has postponed its original deadline for a decision on applications to allow time for

further consideration. Some of those involved in other Irish bids would also welcome an Iberian tie-up but believe it would be possible to have a commercial Irish satellite under certain conditions.

As well as keeping to the original estimated launch costs of £300m, potential Irish investors would like to see a UK service in operation, first, to establish the market for satellite programmes.

Andriana Ierodiaconou assesses peace efforts as Greece prepares for a general election

UN chief tries again to bring Cyprus together

WHEN THE Cyprus peace talks collapsed last January in New York, Sir Javier Perez de Cuellar, the United Nations Secretary General, said he hoped to bring Consultations with the Turkish Cypriot leader, Mr Rauf Denktaş, together again in February. That deadline, and later ones, have passed, but the UN is still struggling to make the meeting happen.

The Secretary General's task is to get the two sides to agree on the substance of a draft settlement for reunifying Cyprus, partitioned since Turkish troops invaded in 1974, and on the procedure to be followed to approve such a settlement at a Kyprionou-Denktaş meeting.

Sr Perez de Cuellar has presented the Greek and Turkish Cypriots with a new proposal on these aspects. Consultations between the UN and the Greek Cypriots began on March 11 at

a meeting between the Secretary General and Mr Kyprionou in Geneva. They are said to be quite advanced but with some details still to be worked out. Consultations with the Turkish Cypriots began intensively just last week.

The new proposal, which is understood to be an amalgam of previous documents with some modifications, remains secret. But the draft settlement plan tabled in New York is believed to remain at its core essentially unchanged. A key feature of the January plan was the creation of a two zone federal republic with a single citizenship in which the 18 per cent Turkish Cypriot minority would control approximately 29 per cent of the territory (as opposed to the 37 per cent occupied by Turkish troops today) and the Greek Cypriot majority the rest.

The republic would have a Greek Cypriot President and Turkish Cypriot Vice President.

The legislature would comprise two chambers, with a 70-30 and a 50-50 Greek Cypriot to Turkish Cypriot ratio in the lower and upper chamber respectively. Disputes arising from the workings of the federation would be referred to a three-member body with one non-Cypriot voting member.

The talks broke down in January not because Mr Kyprionou and Mr Denktaş disagreed on any of these points but because they could not agree on a procedure for agreeing the details of the settlement which were still outstanding, such as the withdrawal of the Turkish occupation troops, the precise occupied territories to be returned to the Greek Cypriots, guarantees for a future accord, and the right of settlement, property ownership and movement in the republic, an issue vital to the interests of the 170,000 Greek Cypriot refugees created by the Turkish invasion.

Mr Kyprionou insisted that these should be negotiated at summit level before signing a draft agreement. Mr Denktaş wanted them relegated to joint working groups. According to diplomats in Nicosia, the new UN proposals can be assumed to contain compromise suggestions for breaking this procedural deadlock.

The UN peace initiative, meanwhile, has been overtaken by domestic political developments on both sides of the Cypriot divide. Mr Kyprionou has been embroiled in a domestic political rebellion led by the two main opposition parties — the pro-Moscow Communists and the pro-U.S. Democratic Rally which share about 65 per cent of the vote between them — who have been in unlikely alliance ever since he returned from New York empty handed.

The opposition insists that the President should have endorsed the preliminary documents in

New York. To push their point they passed a parliamentary motion in February calling on Mr Kyprionou to abide by the decision of the majority in the house, leave an early presidential election.

The President has referred the question to a constitutional court. He is believed to have a strong case given that Cyprus has a presidential system of government, but reacting an agreement with Mr Denktaş would take political heat off him.

Mr Denktaş, meanwhile, is set to hold a referendum on May 8 for a new constitution in the occupied north of the island. He unilaterally declared an independent state there in November 1983, but the state has only been recognised by Turkey. This will be followed by legislative elections on June 24.

A presidential election in which Mr Denktaş plans to be

a candidate will be held either simultaneously or soon after. He has said he will not meet Mr Kyprionou before the election, pushing the date for another meeting to July at the earliest.

More worryingly, from the point of view of achieving such a meeting, Mr Denktaş has said that he considered the documentation tabled in New York no longer valid. If he sticks to this view the UN will have to start putting a new draft settlement plan together from scratch. It remains to be seen whether peace for Cyprus has been pushed back only months, or years.

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Delors launches attack on U.S. economic policy

By Stewart Fleming in Washington

THE PRESIDENT of the EEC Commission, M Jacques Delors, yesterday launched a harsh attack on U.S. economic policy before the Senate Finance Committee.

Claiming that U.S. economic policy "has led practically everywhere to very high real interest rates" which damage the prospects for growth around the world, M Delors echoed Mr George Shultz, U.S. Secretary of State, in a plea for "an internationally co-ordinated strategy" to tackle the economic problems facing the industrialised countries.

M Delors made his remarks after a morning meeting with President Ronald Reagan which was designed in part to allow the two men to get acquainted ahead of next month's economic summit in Bonn. The EEC delegation in Washington released a summary of the statement M Delors was to make to a closed session of the Senate Finance Committee.

M Delors' blunt comments about U.S. economic policy will not be well received in some quarters of the Reagan Administration where he is viewed with suspicion. This was underlined by an editorial in yesterday's Wall Street Journal which

attacked Europe's "brutal social welfare and unemployment system that has kept millions in purgatory without prospects for employment."

In comments which would appear to raise the curtain on the debate on economic policy expected at the Bonn summit, M Delors said that "nothing could be more misleading and more questionable" than U.S. suggestions that "the problem of European economies could be solved if the U.S. 'cure' was adopted."

Europe, he said, cannot afford the fiscal boost which has led to the strong U.S. recovery since 1982. Even if it could "the consequences on interest rates... would be intolerable... a pure supply side shock would be simply impossible because values, attitudes and social structures are fundamentally different in Europe."

M Delors said the strong rise in the value of the dollar on the foreign exchange illustrates the "fundamental malfunctioning of the present international monetary and trade system." He warned that the downward correction in the value of the dollar could "feed protectionist reactions" in other countries.

Brazilians rally round new leader

By Andrew Whitley in Brasilia

POLITICIANS and businessmen throughout Brazil yesterday publicly rallied around President Jose Sarney, the country's new leader, in an impressive display of national solidarity.

Strikes by many of the labour unions were abandoned as workers and managers alike joined in a national outpouring of grief for Sr Tancredo Neves, who died on Sunday after a 38-day illness.

Amid uncertainty over the political direction Brazil will take, leaders of the Democratic Alliance said their two-party ruling coalition was still viable. But one prominent state governor, Sr Jose Rifea, of Parana, warned implicitly that the President would have to share some of his power with the governors and other politicians.

Tens of thousands of Brazilians, in Brasilia and Belo Horizonte, state capital of Minas Gerais, turned out yesterday to pay their last respects to the veteran politician who had fallen by a few hours to take office as president.

In the morning, as Sr Neves' body lay in state in the white marble presidential palace, a moving funeral mass accompanied by full military honours was performed. Outside a single bell tolled and a 21-gun salute was fired.

Accompanying the mourners in the capital were scores of foreign dignitaries, including Baroness Young, the UK Foreign Office Minister of State, Mr Malcolm Baldrige, the U.S. Commerce Secretary, and a dozen Latin American heads of state. Conspicuous among the absentees was General Jose Figueredo, Sr Neves' discredited predecessor.

The late President-elect will be buried privately today in his small home town of Sao Joao del Rei after another overnight halt this time in Belo Horizonte.

Although there was no official confirmation yesterday, negotiations with a visiting team from the International Monetary Fund, due to resume next Monday, are understood to have been put off by a week.

Michael Reddish reports on the growing economic problems of the Netherlands Antilles

Desert island dream turns into nightmare



VITAL TALKS on the future of the Netherlands Antilles began in Caracas today between representatives of the islands, the Netherlands Government and the Venezuelan Government.

Until recently, the Netherlands Antilles were a haven of peace and prosperity in a Caribbean dogged by poverty and rising social tensions.

The oil refineries of Curacao and Aruba made dollars grow in abundance on desert islands, where even the beer is brewed from distilled sea water.

Offshore banking, tourism and generous Dutch aid also contributed to the \$2,500 (\$4,800) per capita income of this self-governing federation. But over the past two years, these pillars of prosperity have crumbled and the Netherlands Antilles continues to push them towards an independence which seems less viable by the day.

The problems began with Venezuela's devaluation in February 1983, which dried up a flood of free-spending Venezuelan tourists to Curacao, and to a lesser extent, Aruba.

These two islands lie within sight of Venezuela's wealth. During the oil boom of the 1970s, their casinos and shopping centres were a favourite playground of the Venezuelan middle classes.

But after the devaluation, the number of Venezuelans visiting Curacao fell 75 per cent and the island's state-owned hotels moved heavily into the red.

The next blow came in September 1984, with Washington's repeal of a 30 per cent withholding tax on U.S. companies selling bonds to overseas investors.

This made redundant the "Antillean window" which U.S. companies had previously used to avoid payment of the tax.

Curacao was suddenly deprived of its main source of income. The island had developed a flourishing offshore banking sector on the strength of a 1963 tax treaty with the U.S., which waived the withholding tax on bonds issued through U.S. subsidiary companies in the Netherlands Antilles.

Income from the offshore sector reached a peak of \$181m last year, when it accounted for nearly half Curacao's total government revenues.

But since the repeal of the U.S. withholding tax does not apply to bonds already issued, the island will continue to receive bond revenues for another four to five years.

Offshore revenue is even projected to rise by \$200m in 1985 as loan portfolios are squared off, but it will decline rapidly thereafter.

The final crunch came last October, when Exxon announced the closure of its 420,000 barrels a day (b/d) refinery on Aruba.

Low throughput, antiquated machinery and weak international oil prices were blamed for a 1984 loss of over \$50m, which determined its shutdown.

Within weeks, Shell threatened to close its own loss-making refinery in Curacao unless the island Government agreed to a number of stiff conditions.

These are still under discussion, but officials are generally hopeful of saving the \$30,000 b/d refinery, which is more modern than Aruba's.

They are also counting on the Dutch Government to put pressure on Shell through its share

holding in the company. Meanwhile, the shutdown of Aruba's refinery has brought catastrophe to this island of 67,000 people, which is due to withdraw from the Netherlands Antilles on January 1 1986, as a first move towards full independence in 1996.

Aruba decided to go it alone due to widespread resentment at Curacao's dominant role in the federation, but without the refinery, this arid island has only tourism to fall back on.

Fortunately tourism is flourishing, thanks to Aruba's strong influx of U.S. visitors, which has more than compensated for the decline from Venezuela.

But the Exxon refinery's closure last month has deprived the island Government of 40 per cent of its regular income and although tourism can generate jobs and foreign exchange, it cannot replace this loss.

Unemployment has shot up from 14 per cent to about 40 per cent within months and the island's gross domestic product is projected to fall by 35 to 45 per cent this year alone.

Aruba's political leader, Mr Betino Croes, says about 2,000 people will emigrate to escape poverty and, according to the Netherlands Antilles Central Bank, about \$20m capital has fled the island since the closure was announced.

"It's a disaster," said one despairing Central Bank official. There is no other word for it.

"Our problem is that we have developed a standard of living here in Aruba which was artificially high and we have to

reduce it," said Mr Croes, whose Government is trying to negotiate a 20 per cent pay cut with the civil service.

Like many Arubans, Mr Croes is optimistic that the island's economy will pick up in three to five years, providing tourism is expanded and new industries are attracted.

In Curacao, which is home to 150,000 of the Netherlands Antilles' 250,000 population, the island Government is also considering pay cuts as part of contingency plans to cope with a sharp fall in revenue.

Other moves being planned are the elimination of subsidies to ailing sectors of the economy and a revamping of foreign investment laws.

In particular, the Government is looking for high-tech industries which could take advantage of Curacao's skilled labour force, yet withstand its relatively high wages.

The Dutch Government is considering emergency budget support for Aruba, but has stressed that overall aid to the Antilles will not rise above the present level of \$80m a year.

Meanwhile, the Antilles of the five - Curacao, Bonaire, St. Maarten, Saba and St. Eustatius - have yet to reach agreement on what links they will retain with Aruba or how they will finance the federal budget after its departure.

One fear is that if Curacao becomes submerged in an economic crisis which threatens its stability, St. Maarten, Saba and St. Eustatius - a trio of tiny islands east of Puerto Rico - may opt out like Aruba and seek direct links with the Netherlands.

issued by its embassy in Washington, denied it had made a pledge to the Reagan Administration to renounce the use of force against what Moscow has called "spies" in East Germany.

A Soviet sentry last month shot and killed Major Arthur Nicholson, who was on a routine military liaison mission in East Germany.

Last week, the U.S. State Department said the Kremlin had pledged, at a meeting between U.S. and Soviet officials in Potsdam, East Germany, on April 12, not to use force or weapons against liaison officers in the future.

The announcement came as the Soviet Union, in a statement

Orders for U.S. durable goods fall by 2.3%

By Our Washington Staff

ORDERS for durable goods in the U.S. fell sharply in March for the second consecutive month, partly as a result of weakening demand in the computer and car industries, the Commerce Department reported yesterday.

The decline of 2.3 per cent in orders for durable goods in March, following the 2.5 per cent fall in February, will worry economists concerned about the weakness of the manufacturing sector in the face of the competitive pressure from imports.

Separately, the U.S. Government reported that consumer prices last month rose at a seasonally adjusted rate of 0.5

per cent, the biggest increase for a year. Petrol prices and medical care fees contributed significantly to the increase.

The rise in medical fees reflected the expiry of a one-year moratorium on health care costs agreed to by doctors.

There have been hopes that sales of computer equipment, one of the strongest sectors of capital spending in the economic recovery, would bounce back from first quarter weakness. But the strength of any recovery is being thrown into doubt.

On the brighter side, new orders for non-defence capital goods, which jumped by 25 per cent in February

Accompanying the mourners in the capital were scores of foreign dignitaries, including Baroness Young, the UK Foreign Office Minister of State, Mr Malcolm Baldrige, the U.S. Commerce Secretary, and a dozen Latin American heads of state. Conspicuous among the absentees was General Jose Figueredo, Sr Neves' discredited predecessor.

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Mexican state's police sacked

By David Gardner in Mexico City

MEXICAN AUTHORITIES have sacked an entire police force for corruption and abuse of authority in the latest of a series of movements here which show that the dividing line between cops and robbers is often so thin as to be invisible.

The governor of the state of Morelos, which borders Mexico City to the south, on Monday disbanded the Judicial Police in his state. These police are the country's main detective force at federal and state level.

The move, affecting, it is thought, some 120 officers, followed what local press reports described as "numerous

complaints about their arbitrary, despotic and corrupt behaviour."

The move is a further blow to the prestige of the almost universally reviled Mexican police forces, coming on top of recent charges against several senior officers for complicity in Mexico's booming drugs traffic.

Dissatisfaction with the police runs throughout Mexican society, but the sheer size of the corruption problem has led the Government to try to tackle it piecemeal up to now.

President Miguel de la Madrid, in a speech to the country's police academy last

July, said Mexico could not be considered under the rule of the law until practices like extortion and torture were rooted out from police ranks.

Not long afterwards, the Mexico City police chief astounded residents of the capital by suggesting in a statement to a congressional committee that they would do better to try to protect themselves.

The point was dramatically underlined late last year when the former head of the feared, and now disbanded, elite paramilitary police unit was arrested for a string of major bank robberies.

Pentagon cancels military group's trip to Moscow

By Our Washington Staff

THE PENTAGON has cancelled a visit to Moscow by a military delegation in what appears to be the latest move in a growing U.S.-Soviet dispute over the fatal shooting in East Germany last month of an American army major. Earlier reports from Washington.

The Pentagon said that the visit by 15 senior military officers studying at the service school of the National War College at Fort McNair, near Washington, had been called off. The trip was to have begun last Saturday.

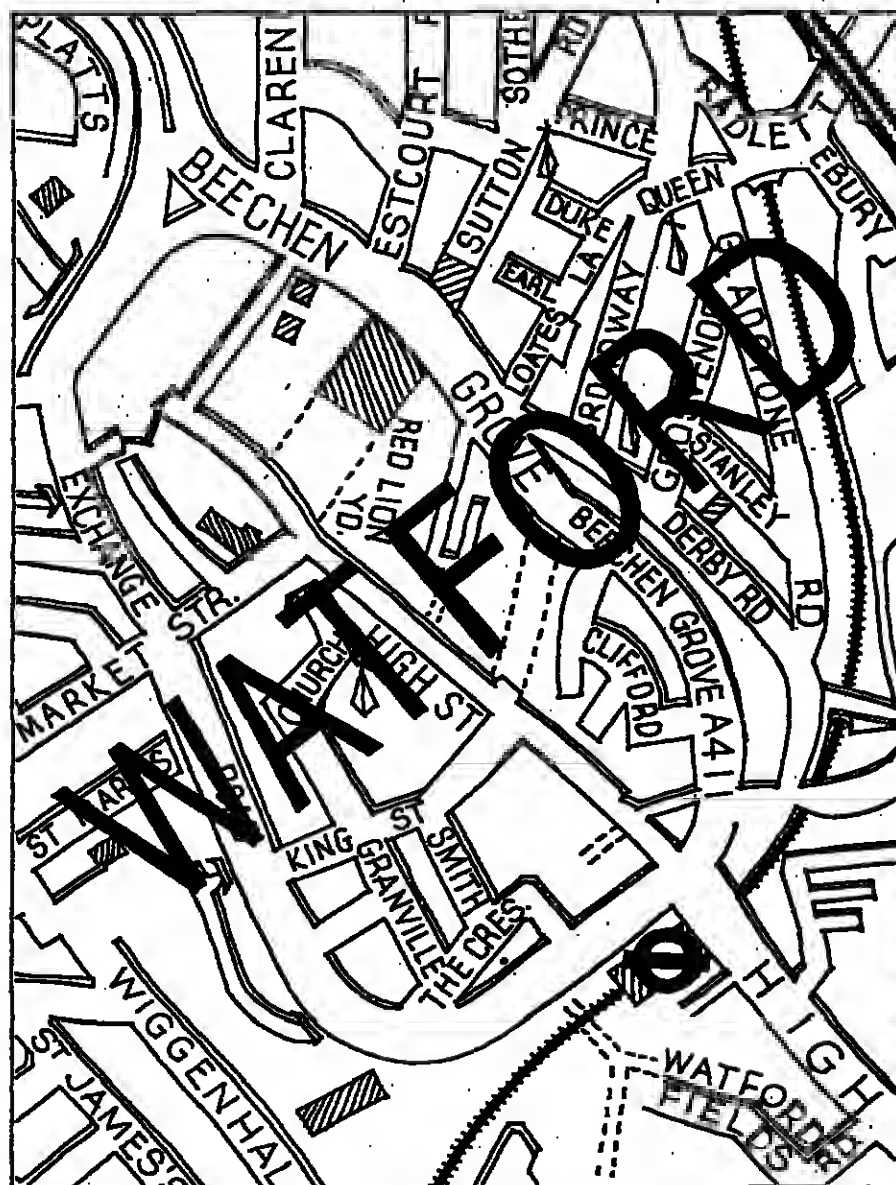
The announcement came as the Soviet Union, in a statement

issued by its embassy in Washington, denied it had made a pledge to the Reagan Administration to renounce the use of force against what Moscow has called "spies" in East Germany.

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OVERSEAS NEWS

South Africa: crab-like reform linked to repression

SELDOM HAS former British Prime Minister Harold Wilson's dictum that a week is a long time in politics been so forcefully underlined than last week in South Africa. In the space of five working days, South African troops were withdrawn from Angola, a new interim government was authorised in Namibia, the New Zealand rugby union announced they would brave the Government's opposition and the threat of demonstrations by anti-apartheid groups to tour South Africa and, in Washington, Mr George Shultz, the Secretary of State, reaffirmed America's commitment to constructive engagement, its policy designed to encourage reform in South Africa rather than punish apartheid.

On the home front, the kaleidoscope was shaken up even more as the Government began a hectic week by abolishing the 1949 Mixed Marriages Act and Article 16 of the Immorality Act, which outlawed

Anthony Robinson reports from Johannesburg on a hectic week in South African politics both at home and abroad

both marriage and sexual relations across the colour line. The dust had hardly settled on that deeply controversial issue when President P. W. Botha stood up in Parliament on Friday to combine a fierce attack on the multiracial, anti-apartheid United Democratic Front (UDF) with four proposals for improving the lot of black Africans and for involving them in policy-making.

President Botha's latest offerings to the unfranchised black majority were essentially refinements of proposals for

improved property rights and political representation for urban blacks made in his speech opening Parliament at the end of January. For the first time, however, he stated clearly that urban blacks now enjoying 99 year leasehold rights could in future own their property freehold.

He went on to hint at future moves to give dual citizenship to homeland blacks by saying that "the loss of South African citizenship is not the necessary consequence of the independence of homelands"—as it has been hitherto.

President Botha made two further proposals to woo "moderate" blacks—but not the banned African National Congress (ANC) or the declaredly non-violent and multi-racial UDF—into participation in local and national politics (but outside Parliament):

- To establish vaguely defined "black authorities" above local level with much more power;
- To throw open the present

cabinet committee on black constitutional affairs to leaders from other parties.

This offer has been taken up with alacrity by the leader of the white opposition Progressive Party (PPF) and small New Republic Party (NRP), but contemptuously refused by Dr Andries Treurnicht, leader of the right-wing Conservative Party (CP), who rejects any watering-down of the original apartheid policies of separate racial development.

To judge by the reaction from most black organisations, the President's further instalments of "reform" were outweighed by the virulence of his accompanying attack on the UDF as "an internal extension of the ANC and the Communist Party".

It was hardly a typical week and yet the key elements—interaction between domestic and foreign involvement, and crab-like reform coupled with repression—accurately reflect in microcosm the pitfalls

and tangles facing the Government and country in the painful search for a new modus vivendi.

Machiavelli warned of the problems facing a prince who embarked upon changes which unsettled those benefiting from the existing situation while provoking scepticism or unrealistic aspirations among those reform is desired to help. His words are now being echoed by harassed government ministers who face two crucial by-elections on May 1.

These will provide the white electorate with their first chance to pronounce on the Government's recent actions and what President Botha described on Friday as "a dramatic escalation of the revolutionary climate" among the black majority.

A parliamentary by-election takes place in the Fort Elizabeth constituency of Newton Park, where the parlous state of the local economy—especially the motor industry—risks being overtaken as a key factor

by white reaction to the continuing unrest in the neighbouring black townships. A white backlash could put paid to the opposition Progressive Party's hopes of winning the seat from the ruling Nationalist Party.

The worst outcome for the Government would be a victory for the right-wing Conservative Party. The Conservatives have not been strong in Newton Park in the past, but this time they have the advantage of an independent National Party candidate to help to split the National Party vote, as well as the yet-unknown size of the expected white backlash.

It is in Harriessmith, however, a traditional National Party stronghold in the lee of the Drakensberg mountains in the Orange Free State, where the Government faces its most direct challenge in a two-way contest with the Conservatives at a provincial council level.

It is here that the Govern-

ment faces the most severe test of its courage in scrapping the mixed marriage and sex laws, proposing a forum for black participation in policy making, recognising a permanent black presence in "white South Africa" and offering blacks both freehold rights and an as-yet-undefined form of dual South African and homeland citizenship.

A symbol of Orange Free State attitudes is the statute which forbids Asians to reside there longer than 72 hours. The Government is under pressure from Indians and Coloureds in the new Parliament to abolish all discriminatory legislation of this kind.

The Conservatives, however, stand firmly for the maintenance of apartheid laws and racial segregation. They opposed the new constitution, and claim that the unrest which has swept the country in recent months is a direct consequence of the "reform" course embarked upon by the Government.

Chips, Chaps, Chats and now Shift

By Chris Sherwell in Singapore

CHIPS, Chaps and Chats, a family trio in the financial centres of New York, London and Hong Kong, are being joined from today by a new brother in Singapore. His name is Shift, and he'll be doing the same job as them: shifting money.

All four are sophisticated computer systems handling banks' transactions with each other electronically. The games Chips, Chaps and Chats are across, playing on words like Clearing House, Interbank, Automated, Payment, Transfer and System; Shift (meaning System for Handling Interbank Funds Transfer) is no different.

Under the system, banks in Singapore will no longer settle their daily accounts with each other through a manual arrangement operated by the Monetary Authority (MAS), the island state's bank regulatory agency, but instantly by computer instead.

Shift is thus seen as a milestone in Singapore's development as a modern financial centre, and a major step towards the creation of a "cashless society." This is a key Government objective, and no less a person than Mr Joe Pillay, managing director of the MAS, will inaugurate the system today before it goes live tomorrow.

A total of 103 banks are members of the scheme, making it second in scale to New York, which has an estimated 130 direct participants. Another 65 Singapore banks and institutions will "piggy-back" the system by tying in with banks directly linked to Shift.

The Singapore system employs Tandem hardware worth US\$1m for the central computer and Texas Instruments microcomputers in the banks. It has been set up by Banking Computer Services, a joint venture between the Hongkong and Shanghai Banking Corporation and the local Oversea-Chinese Banking Corporation.

The group will charge \$80 Singapore cents (28p) per transaction and a monthly fee ranging up to \$250 depending on the margin by which the total daily volume of transactions fails to exceed 4,500. Some banks with low volumes have balked at the fees and, more particularly, the cost of the microcomputers, which is why the piggy-back system was introduced.

Shift represents a major addition to Singapore's other recently created automated clearing systems, and will soon embrace them—a cheque clearing facility begun in August 1982, and an Interbank Giro system for the payment of utility and other bills, which was introduced a year ago.

But the biggest step to a cashless society in Singapore is yet to come—an EFTPOS system (Electronic Funds Transfer at Point of Sale), which allows customers paying for goods in a shop to transfer funds instantly from their account to the retailer's account.

Sabah minister

The new Chief Minister of the East Malaysian state of Sabah, Datuk Joseph Pairin Kitingan, was sworn into office Monday night and yesterday named his cabinet, capping a tense power struggle waged since state elections held over the weekend. AFP reports from Kuala Lumpur.

Army called in as 15 die in Indian riots

By John Elliott in New Delhi

MORE THAN 15 people were killed yesterday in the Western Indian state of Gujarat in riots over privilege promised to members of India's lowest caste which have caused a total of 53 deaths in the past two months.

Violence continued despite the presence of the Indian Army which briefly took over street patrolling on Monday night from police who had abandoned their posts to the state capital of Ahmedabad.

In the Indian Parliament yesterday, Mr S. B. Chavan, the Home Minister, admitted that policemen had indulged in acts of arson and had damaged private property.

Reports said that after hearing news of a police constable being hacked to death, policemen beat up people, smashed car and shop windows, and set buildings on fire.

The troubles pose Mr Rajiv Gandhi, the Prime Minister, with his most serious fresh outbreak of communal tension since he took office last November. They do not have such serious implications for national security and stability as the continuing Sikh unrest in the Punjab. But they do illustrate the deep and potentially violent tensions that spring from India's deeply embedded caste system.

They also illustrate the unreliability of the Indian police force and the problems faced by the Indian Government which has increasingly had to rely on the army to restore law and order in the past year.

The Indian Parliament was told yesterday that the army was called out to deal with law and order problems on 95 separate occasions in the past year compared with only five occasions in 1983-84.

The unrest in Gujarat stems from a national policy of reserving a certain percentage of educational places, government jobs, and other facilities for India's lowest and poorest castes—the scheduled caste and scheduled tribes who together make up about 23 per cent of the population.

A higher group, called backward classes, who account for 52 per cent of the population, have been claiming comparable reservation preference for many years. These groups—such as the agricultural Jat caste from northern India—have done well in government jobs, but now feel they are losing out because they do not have the educational and public employment preferences of the scheduled groups.

Various states in India have been considering the scope of their reserved groups. In order to win favour in India's recent elections, the ruling Congress I Government of Gujarat announced that it was to embrace a large number of the "backward" classes by boosting the percentage covered by the reservation policy from 31 per cent to 49 per cent.

This led to outbreaks of unrest in February, led by students and other members of higher castes

China urges Soviet concession

By Mark Baker in Peking

CHINA has told the Soviet Union that it must take action if there is to be a major improvement in their relations.

The Chinese statement came at the end of the sixth round of Sino-Soviet talks in Moscow, which appear to have failed to achieve a breakthrough on the key differences between the two countries.

But in a joint communique the two sides declared the wish to continue the gradual rebuilding of their relations and agreed to hold further talks in October.

Ghosts of the past at the Bandung talks

By Kieran Cooke in Jakarta

IN A rather small, dingy conference room in Indonesia today, delegates from more than 70 countries representing two-thirds of the world's population will gather to pay homage to events of 30 years ago.

The 1955 Asia-Africa Conference, held in Bandung, high up in the hills of West Java, is seen as a watershed in post-war politics, with many of the issues discussed then echoing down through the years.

Such political giants of the post-war era as Jawaharlal Nehru of India, Egypt's Gamel Abdel Nasser, and China's Chou En-lai, stirred their audience of 30 years ago as they spoke of the evils of racialism in South Africa, the cause of the Palestinians, economic inequalities and the dangers of war between the superpowers. Most of all,

they talked about an end to colonialism, in characteristically fiery language. Indonesia's President Sukarno proclaimed: "Nations, states, have awoken from a sleep of centuries... burthened of national awakenings have swept over the land."

Though the present conference meeting is wider in scope, embracing more countries and some that did not even exist in 1955, it is unlikely to have the same impact as the original. Some commentators have even dismissed the whole affair as a rather expensive public relations exercise by the Indonesian Government. Yet it does have some interesting historical parallels: the 1955 meeting was seen by many as a triumph for Chinese diplomacy and for Chou En-lai in particular. He managed to appear, proclaimed, and reassure the South-east Asian countries that China had no overt political intentions in the region.

China's present Foreign Minister, Wu Xue Qian, will be at today's meeting, the first Chinese official to visit Indonesia since Jakarta broke off diplomatic relations with Peking nearly 20 years ago, after accusing it of being behind a Communist coup attempt.

Indonesia would like to hear Chou En-lai's words repeated, for unlike many other countries, Indonesia still sees China as a threat and is ever-suspicious of Peking's intentions in South-east Asia. There are other issues: the imposing debt problems of many countries will be discussed, as will the Kampuchean problem.

Some survivors of the original conference will be attending. Mr Son Sann—now a guerrilla leader fighting the Vietnamese in Cambodia but, in 1955, head of the country's National Bank—and the Philippines veteran politician, Mr Carlos Romulo, will be in Bandung.

But others of the 1955 generation still alive such as Prince Norodom Sihanouk have been kept away by political differences.

Perhaps the most interesting item on the agenda is a booklet of statistics given to delegates: in 1955 the population of Indonesia was 80m. This has now doubled, China's population has increased by about 80 per cent, and similarly dramatic population increases have been recorded in other participating countries.

The one exception is Kampuchea, which, due mainly to the genocidal policies of the Pol Pot regime in the 1970s, has lost more than a million people. Prince Sihanouk has asked to resign as head of Kampuchea's precarious anti-Vietnamese coalition, foreign diplomats told Renter in Peking.

They said he had written to Khieu Samphan, the Khmer Rouge leader in the coalition, resigning for health reasons. Meanwhile, Vietnam yesterday made a last-minute decision to attend today's conference.

relations between the two countries and we hope that the Soviet side will take some action."

While China remains optimistic of a progressive improvement in Sino-Soviet contacts under the new Soviet leader, Mr Mikhail Gorbachev, various Chinese leaders have been reiterating the importance of the so-called "three obstacles" in recent days.

Even without a breakthrough on these issues, the Chinese are preparing for a rapid expansion of trade and personnel exchanges in the next few years.

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S. Korean leader flies to U.S.

By Steven B. Butler in Seoul

PRESIDENT Chun Doo-hwan of South Korea leaves for an official visit to Washington today as continuing deadlock between the Government and the opposition prevents the convening of the country's National Assembly.

The opposition, which performed remarkably well in the recent elections, is demanding a prior commitment from the ruling party to push for a release of political prisoners. It also wants the full restoration of political rights to Mr Kim Dae-jung, South Korea's leading dissident, who returned to Seoul from exile in the U.S. in February.

Mr Kim was freed from confinement at his home in early March, and has worked behind the scenes politically, but he is still barred from the nation's formal political institutions

under the terms of a suspended sentence for sedition.

The stubborn position adopted by the opposition appears timed to send a message to the American public that the dramatic opening up of South Korea's domestic political process in recent months has not gone far enough. Pressure from the U.S. Government is widely credited for much of the liberalisation and Mr Ronald Reagan may take up the issue when he meets President Chun tomorrow.

Despite persistent anti-Americanism in South Korea, the meeting will mainly be a formal reaffirmation of the U.S. commitment to the defence of South Korea, where some 40,000 American troops are stationed. The two men last met in Seoul in November 1983.

OTTOMAN BANK

NOTICE IS HEREBY GIVEN that, in accordance with Article 29 of the Statutes, the ANNUAL GENERAL MEETING of Shareholders will be held on WEDNESDAY, the 22nd MAY 1985, in THE SKINNERS' HALL, 81 DOWGATE HILL, LONDON EC4A 411 am to receive a Report from the Committee with the Accounts for the year ended 31st December 1984; to propose a Dividend; and to elect Members of the Committee.

By Article 27 of the Statutes the General Meeting is composed of holders, whether in person or by proxy or both together, of at least thirty shares, who, to be entitled to take part in the Meeting, must deposit their shares and, as may be necessary, their proxies at the Head Office of the Company in Istanbul or at any of the branches, or in London at Dunster House, 3rd floor, 37 Mincing Lane, EC3R 7DN or in Paris at 7 rue Meyerbeer, 75009, at least ten days before the date fixed for the Meeting.

The Report of the Committee and the Accounts which will be presented to the General Meeting are available to the Shareholders at the Head Office in Istanbul and at the offices in London and Paris.

T. R. STEPHENS
Secretary to the Committee
24th April 1985

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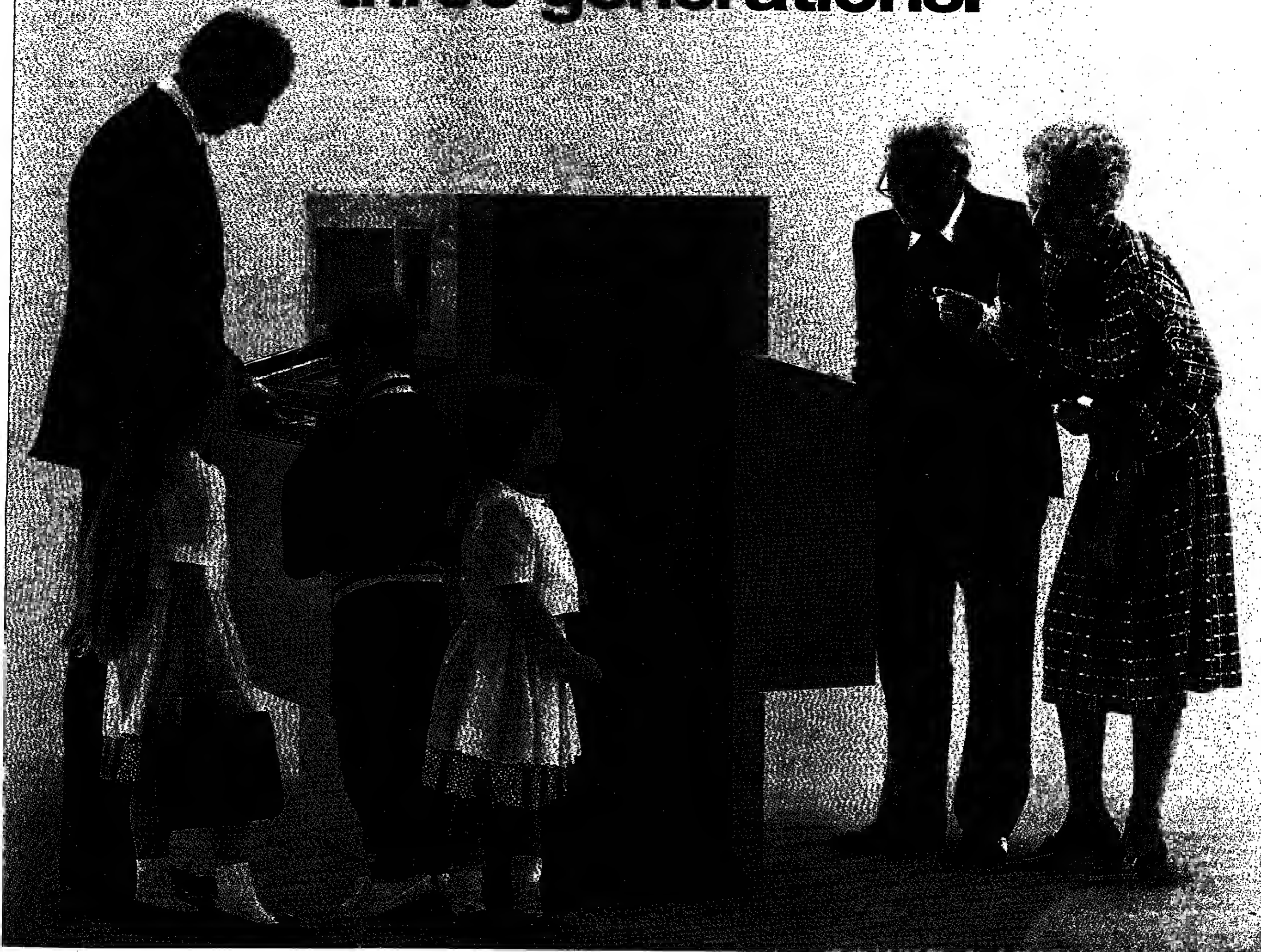
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WORLD TRADE NEWS

Mitsubishi plans U.S. financing company

JAPAN'S Mitsubishi Industrial and Financial Group will set up a finance company in the U.S. next month to help sales of a variety of Japanese products, officials said yesterday. AP-DJ reports from Tokyo.

Officials of the Mitsubishi Corporation trading house, said the company will join with others in the group in setting up the Los Angeles-based company, Mitsubishi Acceptance Corporation, capitalised at \$10m (£8.3m).

The other companies taking part are Mitsubishi Motors, Mitsubishi Heavy Industries, Mitsubishi Bank and Mitsubishi Trust and Banking Corporation.

Mitsubishi Corporation will be represented by its U.S. subsidiary, Mitsubishi International, which officials said will own 80 per cent of the finance company.

The Mitsubishi group has already received clearance from the Japanese Finance Ministry for the project.

In initial stages, Mitsubishi Acceptance will provide financing for sales of construction machinery, forklifts, machine tools and other products manufactured by the members of the group and marketed in the U.S. by Mitsubishi International.

In the first year of business, Mitsubishi Acceptance is expected to lead about \$100m.

Export guarantee scheme launched

BY CHRISTIAN TYLER, TRADE EDITOR

AN EXPORT finance company claiming to provide a new kind of support for short-term sales contracts overseas was launched in London yesterday.

The company, Exfinco, has issued capital of £7.1m subscribed by four shareholders, Electra Investment Trust, Legal and General Assurance, Arab Banking Corporation, and First Pacific Holdings.

A loan agreement signed this week gives Exfinco access to funds of £100m provided by a syndicate of banks.

If it works, Exfinco's operation could hasten the demise of the separate short-term bank

guarantee schemes run by the Export Credits Guarantee Department.

The ECGD wants to wind down these schemes because of what officials describe as falling demand and "degenerating quality" of business. However, protests from exporters have delayed a ministerial decision.

The new company is offering to pay exporters insured with the ECGD 100 per cent of the insured value of their goods at the time of shipment.

It would become, in effect, the owner of the goods and joint holder of the insurance policy.

Mr Roger Pilcher, former managing director of the National Westminster's Credit Factoring International, is chief executive of Exfinco.

He said the Swindon-based company would provide an off-balance sheet service for export credit of up to 180 days. Sales could be made in foreign currencies and there would be no cash limit on the individual exporter.

The scheme will be in competition with the banks' own ECGD backed services for small exporters. Mr Pilcher claimed Exfinco would be "very competitive" on the rates it will charge.

The attraction for ECGD, which has been consulted about the new operation, is that like the banks' schemes it takes a lot of unprofitable administrative work off its books while having little net effect on premium revenues.

About 80 per cent of short-term export is financed by bank overdraft, which Mr Pilcher said was expensive and not always available to smaller exporters.

Large companies preferred to keep short-term trade finance off their balance sheets so as to increase their scope for funding growth, or acquisitions.

Air France signs order for 25 Airbus

By Michael Donne, Aerospace Correspondent

AIR FRANCE, the French flag airline, has now formally signed the long-awaited contract for its purchase of 25 of the new 130-seat A-320 Airbus, with an option on another 25. The order was first announced in 1981.

The precise value of the deal is not disclosed (Airbus refused yesterday even to reveal the current price of an A-320), but it is believed to be upwards of \$25m (£20.8m) per aircraft, which would make the Air France order currently worth over \$625m, excluding spares.

Air France said that four A-320s would be delivered in 1985, with a further six each year between 1986 and 1991, and three in 1992.

The A-320 is now under intensive development among the partner-countries in the Airbus consortium—the UK, France, West Germany and Spain.

Bankers in Jakarta and London have expressed concern about Bouraq Airlines, a privately-owned Indonesian airline with extensive repayment commitments for British Aerospace 48 commuter aircraft.

Kieran Cooke in Jakarta writes, ECGD officials are understood to have been in talks with Bouraq officials over repayments of \$50m for six BAe-48s bought in 1983.

India has doubts on telecommunications accord with Alcatel

BY JOHN ELLIOTT IN NEW DELHI

THE INDIAN Government is considering either cancelling or reducing the size of a major telecommunications collaboration agreement with Alcatel of France which it provisionally accepted last year for an electronic digital switching factory in the southern Indian city of Bangalore.

It is debating whether to choose an alternative technology or wait for its own Indian digital system called C-Dot, which is now being developed.

Alternatively, it might tell CIT-Alcatel that it only wants to buy French equipment without any technical transfer collaboration.

The Indian doubts have emerged at a sensitive time, following French involvement in India's spy scandal earlier this year. Mr Rajiv Gandhi, the Indian Prime Minister, visits Paris in June to open a Festival of India, and there are indications that neither country wants an embarrassing public row before them.

The Indian telecommunications industry is entering a period of rapid expansion with investment of Rs 120bn (£7.6bn) in the next five years.

But Alcatel is in danger of losing the early lead it established two years ago when it won a controversial \$75m contract against international competition, including Siemens of Germany and System X of the UK.

This contract provided for technical transfer and collaboration plus supply equipment for a factory now being completed in Gonda, northern India, to produce 500,000 telephone lines a year.

A smaller factory in Palghat, in the southern state of Kerala,

was also included to manufacture 30,000 circuits a year. In addition, the contract included supply of 23 subscriber exchanges with 200,000 lines made in France, the first of which has just been opened in the commercial capital of Bombay, and 16 French-made transit exchanges.

But the Indians have become dissatisfied with the Gonda project and the Bombay exchange was opened six months behind schedule.

Alcatel was chosen last year to finalise negotiations for a second major factory, similar to the Gonda project, in Bangalore.

Mr Christian Fayard, chairman of Alcatel Thomson of which CIT-Alcatel is a part, said in New Delhi yesterday that the value of this work was expected to be FF 500m (£42m).

FF 700m, including the supply of another 200,000 lines, similar to the first contract.

It now appears that India has not decided whether to go ahead with buying further French-made exchanges and replacing full Gonda-style collaboration.

In an apparent bid to strengthen its position in India, Mr Fayard yesterday announced that a company called Alcatel India is to be formed—40 per cent owned by the French company.

The remaining 60 per cent will be shared among Indian interests including Mekster of New Delhi, which represents Alcatel and other foreign companies.

Alcatel is looking for technical and financial collaborations in the country in electronics, telecommunications and space.

Singapore's 'ECGD' has its first deficit

BY CHRIS SHERWELL IN SINGAPORE

THE Export Credit Insurance Corporation of Singapore (ECICS), the island state's equivalent of Britain's ECGD, has reported its first deficit since starting operations in 1974, and officials hope the decline of the past three years is now at an end.

Results for 1984 published last week stand in sharp contrast to the agency's commercial high water mark for 1981, when it recorded a surplus of \$816.5m (£5.8m).

Last year it returned a full deficit of \$99.3m, compared with a 1983 surplus of \$43.8m.

The breakdown of the figures tells part of the story. Premium income last year was slashed from \$80.2m to \$22m.

Claims paid out were only slightly lower at \$818.1m (1983 \$830.3m), and claims recovered were down sharply from \$88.1m to \$85.9m. Investment and other income was also cut.

But there is more to it than this. ECICS, half owned by the Singapore Government and half by banks and insurance groups, seems to have had trouble making itself known to local exporters, and even now is estimated to insure only a fraction of Singapore trade.

Exporters themselves appar-

ently remain tradition-bound. A recent ECICS survey of 143 companies found the typical exporter geared to selling just in the region, preferably directly rather than through agents, and promoting his business through personal visits.

He was likely to be ignorant of cheaper financing methods and the advantages conferred by export credit insurance.

Though ECICS, like its counterparts abroad, has also suffered because of the world recession and the global debt problem, it had also underwritten too much short-term third-country risk, a policy

halted in mid-1983. At that time, the relevant proportion of the agency's underwriting capacity was split 40-60 in favour of third country exporters. A 70-30 target was imposed, and achieved last year; indeed, the proportion now is said to be 80-20.

It is the cost of the old policy which is now showing up. Officials say that about three-quarters of the claims paid out last year arose from short-term third-country trade underwritten in the 1981-83 period.

The claims picture is expected to improve significantly this year.

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EEC delays decision on Japanese typewriters

BY PAUL CHEESBRIGHT IN BRUSSELS

THE EUROPEAN Community is holding back for another two months before making a decision on whether to impose a definitive anti-dumping duty on Japanese electronic typewriters.

But Brother Industries of Japan is already contesting in the European Court of Justice the decision by the Commission to impose on its products a provisional anti-dumping duty of 43.7 per cent.

The provisional anti-dumping duty on Brother and lesser duties on Canon, Sharp, Silver Seiko, Tokyo Electric, Tokyo Juki Industrial and Towa Saokiden was due to expire today. It is being extended for a further two months to permit further investigations by the Commission.

A definitive anti-dumping duty needs the approval of the EEC Council of Ministers.

Officials in Brussels yesterday denied any link between the extension of the provisional duty and the court case, but acknowledged that the case is

complicated and should not be rushed. Brother, acting on its own behalf and of subsidiaries in Belgium, Denmark, France, Germany, Ireland, the Netherlands and the UK, has filed a 170-page application at the Court, demanding annulment of the duties and damages.

But Brother clearly considered that the matter was not urgent enough to apply for an interim injunction. A final judgment is unlikely before the summer of 1986.

The Japanese company claims in the Court that the Commission has exceeded its power and questions the Commission's calculations of the normal market value of electronic typewriters—the basis of the assessment for deciding whether or not there is a dumping margin.

In its original decision, the Commission noted that there were few sales of the typewriters in Japan and that therefore it had had to calculate factory gate prices in order to compare them with export prices.

INDONESIAN DEVELOPMENT

Trouble-shooter who aims to rationalise system

BY KIERAN COOKE IN JAKARTA

THE NAME Ginanjer Kartasasmita is one that both investors in Indonesia and those wishing to win lucrative government contracts had better note down.

At 44, Mr Kartasasmita is the youngest minister in the strongly development-orientated Government of President Suharto and is increasingly seen as a force to be reckoned with in the day-to-day implementation of economic policy in this country of 160m.

Recently, he was made head of the Indonesian Investment Coordinating Body (BKPM), charged with attracting and approving both domestic and foreign investment. At the same time, he continues as Junior Minister of Domestic Products, co-ordinator of Indonesia's rapidly expanding countertrade programme, and vice-chairman of the Government's purchasing committee, assessing all government purchases worth more than \$500,000 (£316,000).

Japanese educated, Mr Kartasasmita is known for his determined approach to work—an approach which has won him enemies as well as friends in the Indonesian Government hierarchy.

At BKPM, Mr Kartasasmita will be performing the role of a trouble shooter after a dramatic downturn in both domestic and foreign investment in Indonesia recently.

In 1983, domestic investments amounted to \$7.5bn. Last year, they fell to \$2.1bn. Foreign investment showed a similar decline—from \$2.5bn in 1983 to just over \$1bn in 1984.

While a new tax system and a general downturn in the predominantly oil-based Indonesian economy has been blamed for the fall-off in investment, BKPM has often been accused of being overly bureaucratic and without sufficient co-ordinating power and authority to speed the investment process.

Mr Kartasasmita has often spoken about the need for more Indonesian participation. He says economic development has been largely carried out by foreign nationals with Indonesians restricted to only assembling products or merely holding a licence.

He points out that in the 1980-83 period, Government procurements on contracts worth more than \$500,000 totalled \$17.7bn. Imports of goods and services accounted for nearly 70 per cent of that figure.

Under Mr Sudharmono and Mr Kartasasmita, the State Secretariat has instituted a strict system aimed at providing greater opportunity for domestic industry.

Mr Kartasasmita dismisses claims that he is too nationalistic or too protectionist. "What we ask for are greater opportunities for domestic products," he says.

Mr Kartasasmita denies there is any conflict between his various posts and emphasises the link the Indonesian Government sees between investment and the promotion of domestic products.

After all, assistance and investment should be aimed at helping the developing countries build up their economies. He says that by overseeing both contracts and investments, he hopes to rationalise the system.

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alternative forms of financing. And less likely to give you unbiased advice about those alternatives.

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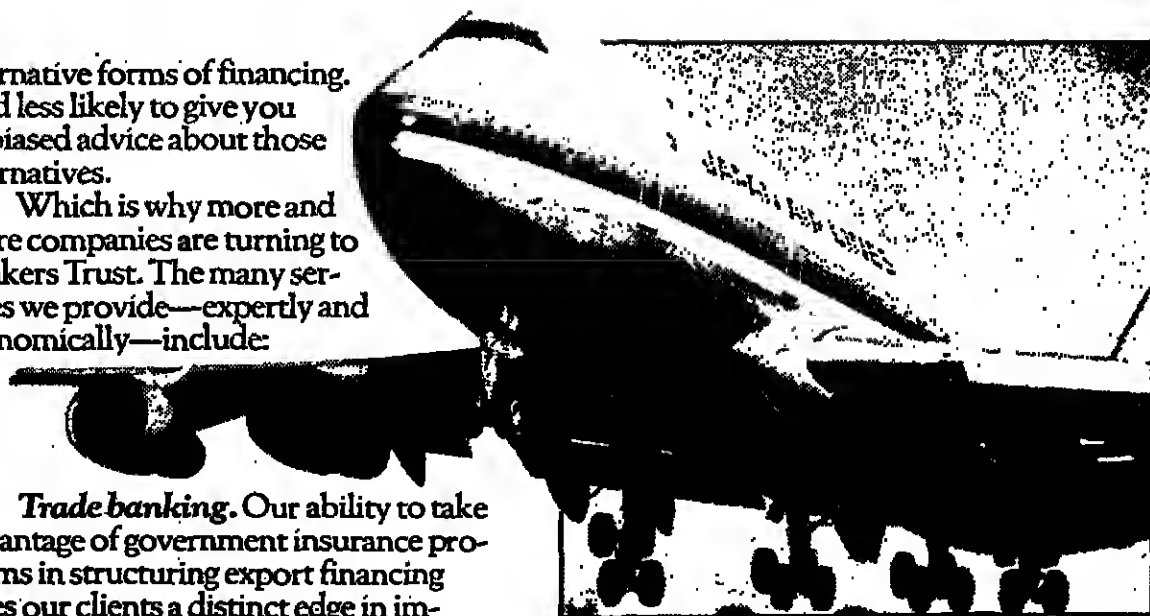
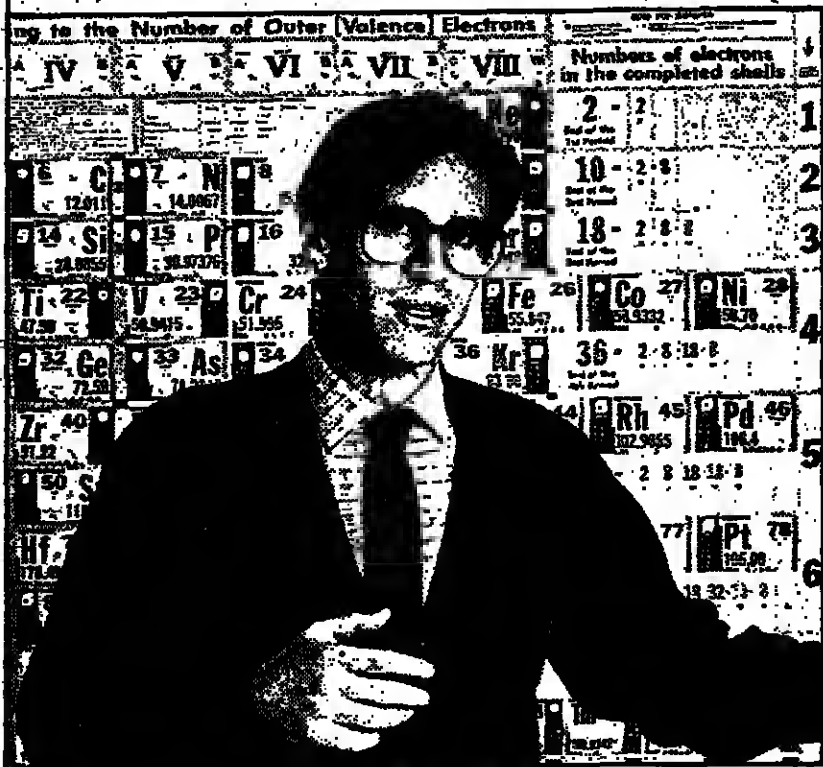
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THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

AN UNUSUALLY courteous and friendly reception greets telephone callers to Electromatic, the fast-growing Danish electronics manufacturer. Like all other salaried personnel at the company, the switchboard operator's earnings are directly dependent on group sales—so she has just the same interest in making a good impression on callers as the salesmen do.

Electromatic's sales-related salary system—which excludes production workers, who are hourly-paid—was invented by the company's founder and owner, Mogens Kjeldsen. Called the points-salary (P) system, it is felt by the company to have been highly successful. The best indication of this is perhaps that there have been no salary negotiations with the salaried employees in seven years it has operated.

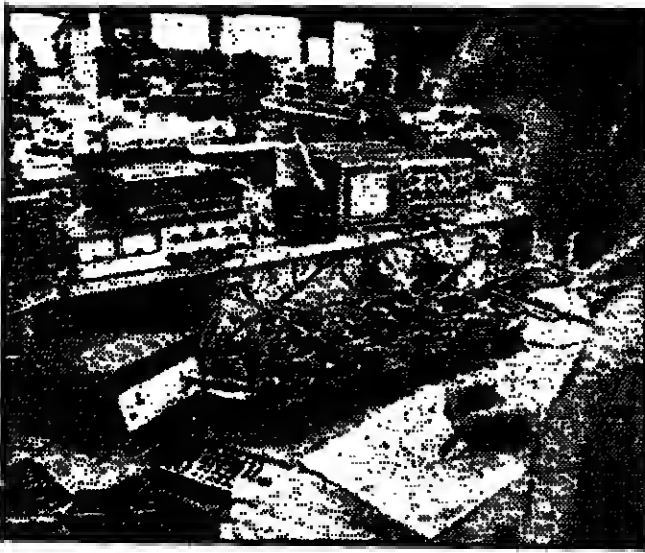
The sales figures also have a tale to tell. Since the system was introduced annual sales have increased sevenfold to an estimated DKK 350m (£25.3m) for 1984, while sales per employee have trebled over the same period to DKK 600,000. The number of employees has risen from 250 to 600.

Kjeldsen founded Electromatic in 1956. Now aged 52, he has had no formal education since leaving school at 14, but has been able successfully to exploit a natural aptitude for electrical engineering. His company specialises in the production of a range of equipment for industrial control purposes, monitoring, counting and measuring.

Kjeldsen's first range of products was built on the principle that all electronic control systems, irrespective of size or use, can be built up from a range of standardised plug-in modules (he was struck by the possibilities of controlling industrial plant in such a way when inspecting controls of aircraft during a spell of national service in the Danish Air Force).

A strength of this approach, he believes, is that customers start with an Electromatic control system and must either continue to add new Electromatic modules or invest in a completely new system. The company's home market today accounts for only a fifth of sales; 80 per cent is exported. It has 13 sales subsidiaries in Canada and the U.S., the Nordic countries and the major EEC countries.

Kjeldsen's P-system is an attempt to put the group's basic philosophy into practice. This is summed up under five headings: decentralisation; insistence on quality; insistence on the necessity for change; the principle that every employee is and must feel important to the firm; and the principle that



Electromatic's production workers were offered the same incentives system as salaried workers but rejected it.

Motivation, money and measurement

Hilary Barnes examines an unusual salary system at a Danish electronics company

every employee should be conversant with the company, its aims and how it intends to achieve them.

The P-system is made possible at Electromatic because the return to the shareholders—Kjeldsen and his family—is not the primary criterion of success. Organisationally, the company consists of a holding company, comprising the group management, functions, and separate companies for each production division and for sales in Denmark and each of the companies abroad.

In each case, 10 per cent of sales are allocated as profit (before tax). Production companies allocate 40 per cent of the balance of revenue for production costs, 35 per cent for wages and 15 per cent for overheads. Sales companies allocate 70 per cent for the purchase of goods to be sold, 10.6 per cent for wages and the remainder for other costs. A key feature is that, as 10 per cent is always allocated as profits, sales cannot be generated at the expense of profits.

Though production workers have been offered the same

terms as salaried personnel, they have rejected it. So they are paid according to a standard hourly wage, plus piece rates system.

Every salaried job is rated on a points scale, calculated on the basis of the job's importance for sales. The switchboard operator may have 15-20 points; the marketing manager 60 points. The proportion of the salary paid as fixed salary and as sales-related bonus varies. The fixed proportion is about a third for the switchboard girl and less than 10 per cent for senior management.

Everyone receives a fixed monthly salary paid on account. According to Per Ebstrup, the managing director, this is typically 80 per cent of the salary justified by the budget for the coming year.

Twice a year, each person's true salary is calculated from the fixed percentage of total sales revenue divided by the aggregate number of points for all personnel, multiplied by each person's individual points. Each month total sales and the points aggregate is published, so that everyone can see how their salaries are develop-

ing. Salaries are rounded up to the true figure on June 1 and December 1 (less out of regard for the summer holiday and Christmas than because June 11 and December 11 are the days when mortgage payments traditionally fall due—the devil's birthday, as the days are called).

"The system gives everyone in the company a common goal, that of improving sales and, as profits are related to sales, profits as well," says Ebstrup. "It applies to everyone, the salesmen, the secretary preparing export documentation and the development engineers, who can't afford to play possum; they have a direct interest in producing things that will work and sell."

The system facilitates extensive delegation of responsibility. "Divisional managers and managers of subsidiaries are free to decide how to use their money as long as they can return a 10 per cent profit and pay 10.6 per cent in wages," says Ebstrup. "A bigger profit is nothing to boast about. If a manager of a sales subsidiary makes a return of 13 per cent it means he should have spent more money on promoting the product."

Managers do not have to ask the group management when they want to invest in new machinery (or only for very major investments). "They do not have to run round and collect 13 signatures on a bit of paper if they want to buy a new computer. After all, the manager of the division knows much better than I do whether he needs a new computer," says Ebstrup.

Be that as it may, what happens when sales fall? At the group level it has not yet happened, but in principle the answer is clear. Each division will have a choice; it can either maintain its staff and take a salary cut or reduce staff. The situation faced a foreign subsidiary, whose sales stagnated while the budget for the following year pointed to a 25 per cent decline. According to Ebstrup, the staff decided to stand together and take the salary consequences (though maternity leave and some part-time working alleviated the situation to some extent), but everything turned out well. Instead of declining by 25 per cent, the staff put in such an effort that sales increased by 25 per cent.

The system appears to have fulfilled its purpose so far, stimulating staff and generating sales and maintaining profits at a sufficiently high level to finance expansion without loss of financial strength—the ratio of equity capital to assets in the latest financial year was 35 per cent.

BIM salary survey

Big business fights shy of bonuses

BY MICHAEL DIXON

POLITICIANS and other pundits who talk of Britain's workforce as divided simply between management and shopfloor are evidently fast becoming out of date. While managers as a whole are at last gaining instead of losing ground in the pay stakes by comparison with lower-ranked workers, there are widening differences between the conditions of managerial life in big companies on the one hand and smaller businesses on the other.

Taking executives as a whole, the British Institute of Management's latest pay survey published yesterday shows that they have jumped ahead of their shopfloor counterparts as a result of improved profitability. On average, managers above foreman-rank ended 1982 about 5.1 per cent better off in real terms than they were 12 months before. The corresponding rise for men manual workers was 2.8 per cent.

But the overall gain for managers in general disguises what seems to be an increasing difference between the strategies which big and small companies adopt in handing over the extra money to their executives.

The tendency of larger concerns is to raise managers' basic salaries. Smaller businesses appear more inclined to pay the extra in incentive bonuses and so avoid giving executives the expectation that their higher rewards will be maintained despite a decline in their company's performance.

In the small companies which have continuously taken part in the British Institute of Management's annual surveys, the proportion of directors and managers above foreman-rank receiving bonuses rose from 41.9 per cent in 1983 to 52.6 per cent at the end of last year. Across the full range of companies of all sizes covered by the BIM's studies, the proportion of the executives getting bonuses rose over the same period from 38.6 to 43.4 per cent.

Besides tending to have more of their total pay tied to company results, executives in small businesses also appear to retire later than their big-company counterparts. In concerns with annual sales of £500m-plus, only 39.6 per cent of men directors and 61.4 per cent of male managers are expected to work until they are at least 65. The same

PAY AND PERKS OF BRITISH DIRECTORS AND MANAGERS IN 1984						
	Average gross salary	% in receipt of bonus	Average bonus received	Share option	Company car	% receiving: Free petrol 6 weeks holiday
Chief executive	47,947	46	6,934	39	97	52
Departmental director	33,403	41	5,160	45	99	56
Top rank below director	26,403	40	2,498	41	95	44
Deputy head of function	19,167	38	1,449	39	70	26
Bottom rank above foreman	12,505	51	1,007	37	30	9

applies to 81.5 per cent of the directors and 97.7 per cent of the other managers in companies with turnovers of under £20m.

In these smallest companies in turnover terms, the average gross salary for chief executives at January 1 this year was about £30,833—up 9.9 per cent on the figure 12 months earlier. The average of the lowest paid manager above foreman to the same companies was £10,790—a 6.9 per cent increase over the year. The salary differential enjoyed by the chief executive over the lowest paid manager on average was therefore 186 per cent.

By contrast, in the companies with £500m-plus turnover, the chief executive had a corresponding differential of 664 per cent. The lowest managerial salary was £13,976 gross—a rise of 9.2 per cent over the year. The average chief executive's salary was £92,830—13.7 per cent up on the figure 12 months previously.

In the £200m-£500m turnover bracket, chief executives had an average gross salary of £38,411—up 8.9 per cent on the year before and 386 per cent higher than the lowest salary of £12,019. Chiefs of £100m-£200m turnover companies averaged £37,448—up greatly by 19.6 per cent and representing a differential of 436 per cent over the bottom paid manager with £10,682.

The lowest salary in the £50m-£100m range averaged £12,072 giving a 292 per cent differential to the chief executives at £47,315 which was 14.1 per cent up on the year. Among the companies with sales of £20m-£50m the chiefs had an average salary of £38,043—up only 3.2 per cent over the 12 months and 266 per cent higher than the £10,587 of their lowest paid managers.

Over the full range of 262 companies employing 16,210

executives covered by the BIM's surveys for the past two years, the overall increases during the period were 11.5 per cent in gross salaries and 11.6 per cent in total money earnings for directors, and 9.6 per cent in salaries and 10.4 per cent in total earnings for the other managers. But the rises varied considerably from one industry to another.

The directors who got the biggest rise in total pay were those in construction with 14.4 per cent, but much of the increase was evidently accounted for by big bonus payments by some of the construction companies studied. Board members in miscellaneous manufacturing industries did next best with 13.4 per cent. Surprisingly, the managers who did least well were those in the high-tech area—technical and scientific, transport and communications companies—with 3.6 per cent.

Top of the league for rises in total earnings for managers below director were groups

spanning several industries with an increase of 19.7 per cent. But textiles, leather, clothing and footwear industries acknowledged their upturn from lengthy recession by coming second with 10.9 per cent. Construction matched its top-placed rise for directors by providing the lowest increase for other managers at 6.3 per cent.

Where fringe benefits such as company cars are concerned, the BIM survey report sees no reason to foresee a big resurgence in non-money rewards as a result of the raising of National Insurance contributions for higher paid staff. But the move has nonetheless ensured "that fringe benefits are here to stay as an important part of remuneration policy."

National Management Salary Survey, and Small Business Review, BIM, £110 and £70 respectively or £150 for both. Available from Remuneration Economics, 51 Portland Rd, Kingston upon Thames, Surrey KT1 2SH.

BUSINESS PROBLEMS BY OUR LEGAL STAFF

Investment company

Over 30 years ago I formed an investment company as my nominee for one transaction. A profit was made but no tax was payable on the investment and the company has not been active since.

I have treated the money of the company as my own and no tax return has ever been made by the company, which is dormant. Is there any possibility that the money could be treated as a beneficial loan to myself as a director and would it therefore be in order to wind up

the company or have it removed from the register as no longer trading? Please advise with regard to any notional interest liability on myself or the company.

You have not given us sufficient precise facts for a helpful reply. The company's auditors are best placed to advise you, from their background knowledge of the company's affairs (as well as tax rules). From the bare facts outlined, there may well be problems with tax.

No legal responsibility can be accepted by the Financial Times for the answers given in these columns. All inquiries will be answered, by post as soon as possible.



IF THE WELDING ISN'T STRONG ENOUGH, THE CAR WILL FALL ON THE WRITER.

That's me, lying rather nervously under the new Volvo 740.

For years I've been writing in advertisements that each spot weld in a Volvo is strong enough to support the weight of the entire car.

Someone decided I should put my body where my mouth is. So we suspended the car and I crawled underneath. Of course the Volvo lived up to its reputation and I lived to tell the tale.

But the real point of the story is this; the Volvo 740 may

have a different body shape, a fast and frugal new engine, a new interior and a new suspension system, but in one respect it's just like the Volvos of yore.

It's so well built you can bet your life on it. I know. I just did.

To: Volvo, Springfield House, Mill Avenue, Bristol BS1 4SA.
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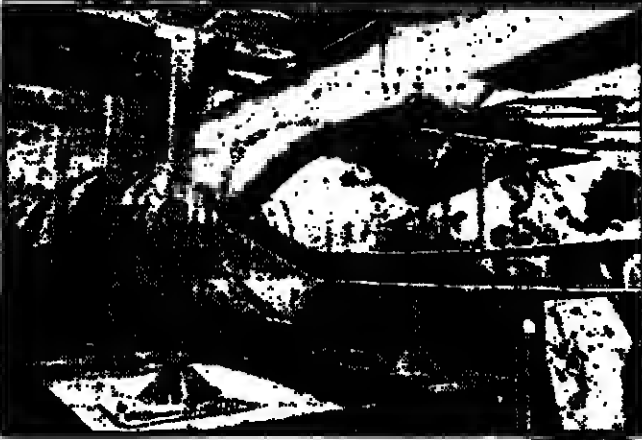
The Star Wars laboratory

BY DAVID FISHLOCK, SCIENCE EDITOR

It will employ 36 accelerators in a pulsed power driver, which are expected to unleash their energy simultaneously within a span of only 10 seconds. A year ago, the laboratory announced it had focused an ion beam to the size of a pinhead, using a diode

A machine called the Pulse

gruber, Sandia's director of systems studies.



- A. Containment tank with a 180 ft diameter.
- B. Marx generators.
- C. Pulse forming lines on an accelerator.
- D. Reaction chamber.

Foot note

ENHART CORPORATION, the shoe-making machinery company, has signed an agreement with Computer Design of Grand Rapids to produce a computer-aided design system for styling and manufacturing footwear.



Jon Cummings

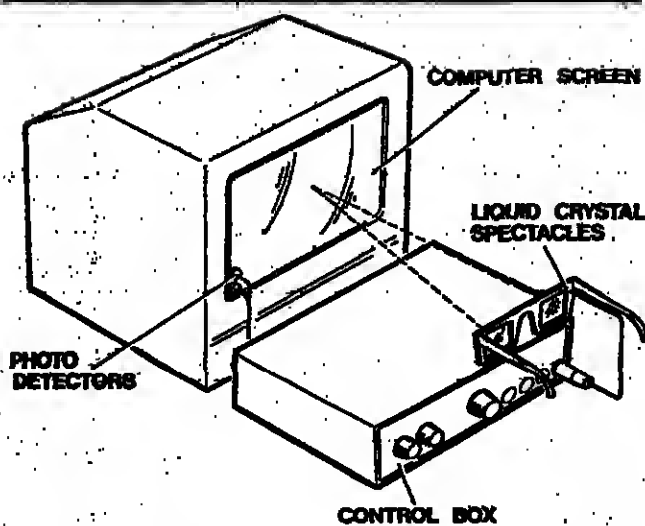
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On screen computer images in 3D

BY GEOFFREY CHARLISH

The Millenium system can be applied to a normal-screen and keyboard graphics terminal with

one pair of spectacles but up to four people can view and additional pairs cost £195.
Milenium is on 0438 726661.

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JOINT ANNOUNCEMENT APEX MINES LIMITED (* Apex *) THE CLYDESDALE (TRANSVAAL) COLLIERIES LIMITED (* Clydesdale *) (Both Companies are incorporated in Republic of South Africa) PROPOSED MERGER OF THE OPERATIONS OF APEX AND CLYDESDALE

The application to the Supreme Court of South Africa (Witwatersrand Local Division) for confirmation of the Scheme of Arrangement providing for the merger of the operations of Apex and Clydesdale was opposed. An Order was handed down on 8 March 1985 granting Apex leave to apply for permission to have any relevant factual issues referred to evidence.

Pursuant to the above Order Apex made application on 25 March 1985 for permission to lead evidence. This application was however dismissed by the Supreme Court on 16 April 1985. At the same time the Court also dismissed the application for confirmation of the Scheme of Arrangement.

After consideration the board of Apex has decided to apply for leave to appeal against the judgement. This decision is supported by the board of Clydesdale.

Certificates for shares in Apex and Clydesdale will continue to be good delivery on The Johannesburg Stock Exchange and Clydesdale's share certificates will continue to be good delivery on The Stock Exchange, London, until further notice.

22 April 1985.

Members of the Gold Fields Group

Business leaders show more optimism

By Max Wilkinson,
Economics Correspondent

BUSINESS leaders have become significantly more optimistic about prospects for the British economy, according to the latest survey by the Institute of Directors, published yesterday. The survey suggested that more than half of businessmen are now more optimistic about general economic prospects than they were six months ago.

The last survey, in February, showed that just over a quarter of businessmen were more optimistic than six months before. Improved optimism shown in the latest survey generally matches the more buoyant outlook shown in the more extensive surveys of industry conducted by the Confederation of British Industry.

Those have suggested that order books and export prospects are improving, and that retailers are expecting further growth in sales, although at a decelerating pace.

Yesterday, however, official figures from the Central Statistical Office showed that consumer spending was unchanged at £26.6bn (1980 prices) in the first quarter of the year compared with the final quarter of 1984.

That reflected an apparent drop in retail sales in January, after a brisk Christmas trade. The level of consumer spending in the first three months of this year is put at 1.6 per cent above the level a year earlier.

The increased optimism of the directors is thought to reflect the recent rise of the pound on the foreign exchanges after the sterling crisis in mid-January. Interest rates were then raised by 4½ percentage points to 14 per cent in defence of the currency.

Television trials in House of Lords may be extended

BY JOHN HUNT

EXPERIMENTAL televising of the House of Lords (upper house) may continue into the late summer and autumn even though the six-month trial period will have been completed.

The Independent Television News and British Broadcasting Corporation (BBC) want to continue with the experiment while the Lords Broadcasting Committee considers its recommendations on televising its proceedings.

There are growing indications that the House of Commons will hold a debate before the summer recess on whether to introduce a separate experiment in its own chamber.

At the moment, however, Mr John Biffen, Leader of the Commons, will go no further than his earlier statement that he hopes to give Members of Parliament (MPs) an opportunity to consider the matter.

The broadcasters are satisfied with the way the experiment has

gone in the upper house: audiences of reasonable size and only minor complaints from peers about coverage and editing.

The BBC and ITN are concentrating more on nightly round-ups of debates in 10-15-minute slots. They seem popular with viewers, and peers favour them because they provide a succinct version of the proceedings.

The Lords Broadcasting Committee, under the chairmanship of Lord Aberdare, will be considering the outcome after the recess, which begins at the end of July or beginning of August.

The most likely outcome of the report - to be published in the Autumn - is that the trial, which began in January, has succeeded, but that televising can go ahead on a permanent basis only if the Commons is also televised.

Televising the Commons will clearly be different and a more expensive affair than the operation in the upper house.

The peers have tolerantly allowed the broadcasters to come in for live debates of their own choosing and to put out short excerpts on a regular basis with no editorial interference. On the whole, that has worked well.

That will not do for the Commons, however. Many MPs will want tighter control. They will probably insist on a Commons broadcasting unit controlling the cameras and having a say in the editing, even though such a scheme bristles with technical and administrative difficulties.

Such demands as those would prove vastly more expensive than the Lords system, which raises the perennial question of who will pay.

Some believe that television would have a sobering effect on some of the more flamboyant characters in the Commons. But, judging from the past behaviour of some of the wilder spirits, that remains doubtful.

Nurses issue threat on pay

By David Brindle

THE ROYAL College of Nursing (RCN) yesterday signalled its intention to mount a potentially damaging long-term campaign against the Government if it fails to honour any award recommended by the Nurses Pay Review Body.

Mr Trevor Clay, general secretary of the 243,000-strong union, which is not affiliated to the Trades Union Congress, said one possibility might be to give members electoral advice which took account of Labour's pledge this week to make up the claimed 20 per cent slippage in nurses' pay.

The implications spread far beyond the profession itself. There is traditionally strong popular support for the nurses' case on pay, particularly since the RCN decided three years ago to forswear industrial action.

Mr Clay said: "The public are basically on the side of nurses. That could have implications for the Government."

The RCN fears that the Government may either ignore the pay review body's findings, and confine any award within the cash limit, or may fail to provide full funding. Mr Kenneth Clarke, Health Minister has told the review body in evidence that any money above 3 per cent would have to be found within the National Health Service.

The union's annual conference at Bournemouth yesterday passed unanimously an emergency resolution demanding that the Government cease its moral blackmail of setting nurses' pay against the needs of patients.

New publisher for ratings list

By Lionel Barber

THE Continental Illinois survey has acquired a new publisher: Eitel Financial and Business Services.

The survey publishes annually a league table of analysts as ranked by fund and investment managers. It was first produced 11 years ago by Mr Geoffrey Osmint for the Chicago-based bank, Continental Illinois. But last November, Mr Osmint left Continental Illinois to join County Bank, the merchant banking arm of National Westminster Bank.

That caused an immediate conflict of interest because National Westminster Bank owns a stake in Fielding Newson-Smith, a stockbroker which is likely to appear in the league table.

Mr Osmint, who will continue to produce the survey with Eitel, said he was pleased with the new arrangement. "Above all, the relationship assures that the survey's impartiality and integrity can be maintained," he said.

Competition among this style of survey is increasing. Euromoney magazine, Institutional Investor, and the Association of Corporate Treasurers have started their own surveys, while this year The Sunday Times launched its own version with Mori, the opinion poll group.

Iberian trade 'not to be missed'

BY CHRISTIAN TYLER, TRADE EDITOR

SPAIN and Portugal present a trading opportunity that British business cannot afford to miss, Mr Paul Channon, Trade Minister, said yesterday.

The minister gave a warning that unless companies moved quickly, their European competitors would seize the opportunity afforded when the two countries join the EEC in January.

"It is not political wishful thinking to say that there are significant new opportunities, provided we are quick enough off the mark," he told a business conference organised by the Confederation of British Industry, the employers' body, and the British Overseas Trade Board.

"This is a bus we cannot afford to

miss. If we do, there will be plenty of other passengers."

From next year, Spanish import tariffs on EEC goods will gradually be eliminated by 1993, and quotas on most goods will be abolished immediately.

Mr Channon argued that the balance of trade would swing in the UK's favour because, until now, Spain has had preferential access to EEC markets while maintaining a high tariff wall.

Last year, the UK had a trade deficit with both Iberian countries, with exports to Spain at £1.3bn, against imports of £1.7bn, and, with Portugal, £386m against £335m. Trade with Spain has been growing, but UK exports to Portugal have

dropped in the last two years, while imports, especially of textiles, have risen sharply.

According to the trade board, the best opportunities are in computers, medical and scientific equipment, telecommunications, security equipment and pollution control.

The removal of import duties would open up the market for domestic electrical equipment, confectionery, do-it-yourself and other household goods.

Direct investment in the country is relatively easy, according to bankers, except in areas such as mining, shipping and publishing, provided foreign currency is used to set up subsidiary companies.

Profits squeeze hits fruit, vegetable trades

BY ANDREW GOWERS

BRITAIN'S FRUIT and vegetable wholesale trades are suffering from overcapacity and a squeeze on profits which is driving a near-record number of companies out of business, according to a report published yesterday.

The study, commissioned by the National Federation of Fruit and Potato Trades, paints a gloomy picture of the deterioration in wholesale markets since 1950. Companies' net profit margins have been squeezed between then and now from about 2.7 per cent to only 0.37 per cent.

"In these circumstances," it says, "it seems certain that unless prompt, co-operative action is taken, then profit margins will remain depressed for many years to come." It does not detail any specific course of action.

Since 1950, the report says the proportion of produce handled by "primary" wholesale markets such as Covent Garden has declined

from about 80 per cent to its present level of less than 60 per cent.

That reflects the growth of sales through supermarkets, which now account for 40 per cent of fresh vegetable and salad sales and 30 per cent of fruit sales; direct sales to consumer at the farm gate; and the development of frozen vegetables.

As a result of the decline, trading costs for each unit of produce have risen. Costs have also been increased by the relocation of wholesale markets to more expensive, modern premises.

With bankruptcies and company liquidations running close to record levels, the fixed costs of market facilities are having to be spread among an ever-decreasing number of companies.

"A study of the trends in the wholesale fruit and vegetable markets since 1950" by Dr P. Davies: price £3 from National Federation of Fruit and Potato Trades Ltd, Market Towers, 1 Nine Elms Lane, London SW9 5NQ.

IF THERE'S AN ISSUE WORTH RAISING, IT'S IN THE ECONOMIST.

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UK NEWS

Commons halted as Labour MPs block Dr Owen

BY OUR PARLIAMENTARY STAFF
THE HOUSE OF Commons was suspended yesterday after Labour left-wingers blocked Dr David Owen, leader of the Social Democratic Party (SDP) from delivering a speech from his usual seat in the chamber.

Their move led to angry jostling when Dr Owen strode up to the Opposition despatch box and was elbowed away by Mr John Prescott, Labour's spokesman on employment matters.

Moments later, the Labour front benches again blocked Dr Owen's way with their feet when he made a second attempt to take over the Opposition front bench, amid uproar from both sides of the House.

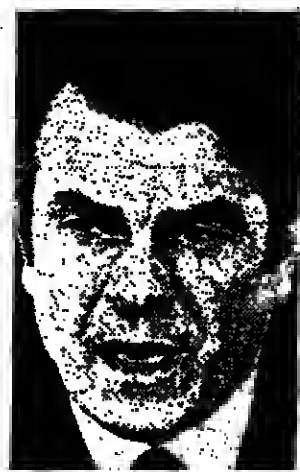
Ten Labour MPs, mostly left-wingers, occupied the entire front bench below the gangway, where Dr Owen normally sits with one or two of his SDP colleagues, from the start of question time and refused to make way when the time arrived for him to launch a debate on an Alliance motion on trade union ballots.

Eventually Dr Owen was allowed to speak from his normal place and to launch an attack on trade union ballot-rigging. But Employment Secretary Mr Tom King dubbed the scenes "disgraceful", and demonstrating "bully-boy behaviour" by Labour.

The scuffles - one of the most serious incidents in the Commons in recent years - lasted for about half an hour before the 12-minute suspension.

In an angry denunciation of the left-wingers' tactics, Mr King said in his statement: "The scenes in the House of Commons today were disgraceful. The Labour Party deliberately set out to obstruct Dr Owen and prevent him from speaking."

"It was the clearest possible demonstration of the sort of tactics that have done such damage to democracy in trade unions. If ever we needed confirmation of the



Dr David Owen

rightness of giving proper democratic rights to individual union members and the means to defend them from this sort of bully-boy behaviour, the scenes in the Commons said it all."

Mr Brian Sedgemore (Labour) from the SDP benches, told Mr Harold Walker, the deputy speaker: "Under the provisions of the Mental Health Act, you reserve the power to call in a psychiatrist to sort out this matter." Mr Walker did not respond to the invitation.

He said later, however: "Of course it is a universally recognised and observed convention that the despatch boxes are used by ministers to address the House and by the leaders or spokesmen for the official opposition."

"I can only ask the House to observe and sustain the convention, but I have no authority to prevent any member who decides to breach that convention." The SDP/Liberal Alliance later won agreement to an official review of its position and rights in the Commons.

Shipbuilding unions accept 4.7% pay deal

BY BRIAN GROOM, LABOUR STAFF

BRITISH SHIPBUILDERS, the state-owned group, yesterday reached agreement with unions representing its 42,000 workers on a pay deal which will increase the total wage and salary bill by about 4.7 per cent.

In addition, the agreement provides for discussions at local level on new bonus schemes which would allow higher earnings in return for improved performance.

The previous offer was for 3.2 per cent on basic rates plus 1 per cent in iron out wage and salary anomalies at yard level, but BS appears to have responded to union pressure by putting all the money on to basic rates.

Salary cut for Reckitt chief

By Charles Batchelor

SIR JAMES CLEMINSON, chairman of Reckitt & Coleman, the household products and foods group, has taken a large salary cut, the company's annual report has disclosed.

The reduction from £86,500 in 1983 to £37,700 in 1984 reflected the fact that Sir James had reached the company's normal retirement age of 62, the company said. He is, however, to continue to exercise his full responsibilities as chairman.

Sir James's salary reduction goes against the recent trend for sharp increases in directors' salaries, often reflecting improvements in company profits. Reckitt increased pre-tax profits by 20 per cent to £106.4m last year.

Reckitt's chief executive, Mr John West, was paid £109,900 last year, £11,700 more than in 1983.

UNIONS BELIEVE DAGENHAM WILL BE CHOSEN TO PRODUCE NEW 2-LITRE RANGE

UK tipped for Ford engine output

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

FORD unions are convinced that Dagenham in the UK has been selected in preference to Cologne in West Germany to produce a new "family" of two-litre engines in which the company is investing more than £100m.

Rumours about the project's going to Britain have been so strong that the state government of North Rhine-Westphalia, in which the Cologne plant is situated, and which faces an election next month, has intervened and put together financial aid attractive enough to persuade Ford to change its mind.

Mr Daniel Gossendevert, Ford of Germany chief executive, was called to a meeting with Prof Raimut Hochmiesen, state premier, this week to discuss the issue.

However, Ford of Europe yesterday insisted that no decision had yet been made about where the new engine would be produced.

"It could be Cologne, Dagenham, another Ford plant, or even be made by an outside supplier -

that might be cheaper, given the excess capacity around Europe." Ford would make up its mind in "a matter of weeks," an official said and pointed out that the new engine family would not be required for four or five years.

Unions suggest, however, that most indications from the suppliers that will provide the engine production-line equipment point towards Dagenham as the chosen facility, with Valencia in Spain having an outside chance.

The new engines will replace existing power units in the Sierra and the Transit van. Space would be readily available at Dagenham, where the present engines are produced, but new buildings would be needed at Valencia.

Ford is already using Dagenham to supply Europe with its 1.6-litre car diesel engine - brought into production at the cost of £140m last year - and the Cologne plant's V6 Granada engine line has also recently been re-tooled and modernised.

Cost of military programmes disclosed

BY LYNTON MCLEIN

THE COST of some of Britain's most expensive military equipment programmes has been disclosed for the first time in the House of Commons in a written answer.

Two programmes for which total costs have not been given previously are the JP233 runway and airfield attack bomb, and the Anglo-Italian EH 101 helicopter programme.

The JP 233 programme has a total cost "of the order of £700m," Mr

John Lee, under-secretary for defence procurement, told the House.

Hunting Engineering, part of the Hunting Group, is prime contractor for the runway cratering bomb. Hunting manages the project, involving four main sub-contractors, Ferranti, Thorn EMI Electronics, M. Aviation and Royal Ordnance.

About 4,000 people are employed in producing the weapon, which is entering service with the Royal Air Force (RAF).

Hunting Engineering is working

on modifications to the JP233 for possible use in the long-range stand-off missile being considered by the U.S., UK and West Germany. The company is lead contractor in the UK for one of two consortia awarded feasibility studies by the U.S. Department of Defence, on behalf of the three nations.

The total cost of the EH 101 helicopter programme was estimated by Mr Lee at £1.38bn. Westland is in partnership with Agusta of Italy on the helicopter, but Britain and

Italy have not committed themselves to full-scale production.

Aerospace component and equipment makers fear that the programme might be cancelled in favour of the NH 90 helicopter programme for members of the North Atlantic Treaty Organisation which is committed to a feasibility study on the NH 90.

The Alarm anti-radiation missile for the RAF is being built by British Aerospace Dynamics group under a contract valued at £300m.

Rolm selects Britain as base for PABX making in Europe

BY JASON CRISP

ROLM, the Californian telecommunications group taken over last year by IBM, is to set up its European head office and a development and manufacturing plant in Britain.

The operations will be at Wootton Bassett, in Wiltshire, where the company is buying a 150-acre site and where it expects to employ 200-300 people. The plant will be responsible for developing products to meet European technical specifications. Rolm has been recruiting for development engineers in Europe who will go to its headquarters in Santa Clara in California to start adapting equipment.

Rolm is one of the most successful companies selling private telephone exchanges (PABXs) in the North American market. Its equipment is also sold in Italy, Japan and Latin America. One of its exchanges is being evaluated in Britain under the Trade and Industry Department's interim approvals scheme. If it passes, the exchange will be sold by IBM.

IBM has been in the European telecommunications market for more than 10 years and was the first company to sell an electronic exchange in the UK. Rolm is responsible for developing telecommunications products for IBM, although it will continue to sell the

1750 PABX in Europe.

The British computer services industry increased sales by 20 per cent to £2.1bn last year, according to a new survey by the Trade and Industry Department.

There are about 15,000 companies involved in the industry although the 200 largest account for more than half its sales, the department says. For the first time, the department conducted a sample survey of smaller companies as well as collecting statistics from the larger ones.

Nearly half of the sales came from systems analysis, software and software maintenance. More than one quarter of income came from data processing and database services with the remainder from consultancy, hardware maintenance and training.

The DTI says that about 30 per cent of companies questioned considered manufacturing industry as their prime market and 20 per cent specialised in the distributive trades and financial services.

Mr John Butcher, industry under-secretary, said: "I am pleased to see that output last year, £2.1bn, satisfactorily complemented the £2.9bn sales of UK manufacturers in the computers and associated data processing equipment industry."

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Television/Christopher Dunkley

The way history wasn't

Those of us who went to English schools in the 1950s and 1960s might well imagine that the history of the British Empire consisted of lots of our chaps going out to godless places where people dressed in feathers and loincloths, and providing them with roads and railways, British education, British law and a Christian church.

And if your view of Dickensian England depended upon Hollywood and popular illustration, you might imagine that candles and firelight were a charming idiosyncrasy used to enhance concealed electric lighting, that landscapes only ever contained single stage-coaches, and that life, except for a few dramatic moments, was slow, quiet, pleasant and comfortable.

Two series currently being transmitted provide vivid and fascinating alternatives to those fixed views. They also emphasise yet again the point made so often in this column: that the proportion of excellent material on British television is very impressive. It is the sort of television represented by *End of Empire* on Channel 4, and *Black House* on BBC2 which will no doubt need to be championed and protected as we move closer to a free market in broadcasting.

End of Empire is made to a formula with which we have become familiar in such series as *The World At War* and *All Our Working Lives*. It combines archive material, predominantly newsreels, with interviews specially shot for the series. There has never been a first rate series about the history of the British Empire generally, the 1972 BBC series *The British Empire* unfortunately being rather unimpressive. Yet it seems there was never any thought that this new Granada series would cover the whole history because the chief motivation was the desire to capture on film, before they disappear for good, the memories of British imperial civil servants and of the nationalist leaders who clamoured, and in many cases fought, for independence. Obviously, their memories concern not the great Victorian heyday but the final years of the largest empire the world has ever known.

Thus the subject of the series was, in part, dictated by the material available, but only in the broadest general terms. The significant difference between *End of Empire* and Granada's other major current documentary series, *Discovery*, is that *Empire* is meant to be an accurate, structured to illustrate a carefully formulated and consistent thesis—using "script priority" to adopt the terminology of the new SLR cameras—while *Discovery* appears to be an accumulation of interesting clips around which a script has been knitted using "picture priority". The more traditional and more revealing phrase to describe this approach is "writing to picture".

The contrast is very noticeable. Whereas *Television* is a series of disparate programmes, each one bringing together a collection of examples within a single sold (light entertainment, news, commercials) without a clearly consistent approach, *End of Empire*—even though it features an equally disparate collection of subjects (India, Egypt, Aden) does have a uniting attitude, or so it seems to me having watched the first three episodes and also those on Iran and Malaysia.

These differences are presumably not unconnected with the fact that whereas the book of the series was, in the case of *Television*, written by a freelance journalist who had nothing to do with producing the programmes, the book "End of Empire" was written by the



Charlie Drake, the comedian, who enters the cast of *Black House* tonight in a rare "straight" role as Smallwood

executive producer of the *Empire* series, Brian Lapping. An admirably racy and readable book it is, too, which is remarkable since it is largely devoted to politics.

The way in which television series of this sort can crystallise periods, social groupings and even complicated sets of attitudes is quite extraordinary. Many historians and other academics working in a conventional way exclusively in print still despise and dismiss television, and yet *End of Empire* seems to me to make much printed history redundant. Listening to the refined naval officers and civil servants in programme one, describing the beginning of the end in the loss of Singapore, was like listening at first hand to an actual recording of history.

"My father was captain of the Prince of Wales..." said Leach, straight to camera. Captain Colin McMillen, former gunnery officer, followed, saying: "The Care-plan sent for me... and he said 'I'm afraid it's going to be a pretty sticky game'."

It was not simply what they said but the way they said it. Broadcasters now feel it dreadfully unfashionable to allow cut glass accents of this sort on the air, and some viewers may have thought this class of people had ceased to exist. Yet *End of Empire* shows they are still out there, sitting on immemorial leafy garden terraces in the shires. Equally telling are the newsreels and propaganda films made by Britain's erstwhile enemies such as the Japanese, seen in next week's programme, celebrating their advance by sitting on their tanks, beaming and waving for the camera just like our own soldiers.

Most salient and sobering of all, however, is the material coming from those who lived as subjects of British imperialism. Some of these are interviews with people who represent too great a swing of the pendulum after generations of jingoistic hyperbole. One, certainly, there is precious little here about taking up the white man's burden or the "civilising mission" and the like. But then, it does deal explicitly with the end of an empire; and, anyway, the pendulum did, surely, need to swing rather a lot. It is healthy that a nation should be shown what was done in its name before the generation which did it has entirely disappeared, and no medium could possibly accomplish this with such vividness, such impact, or such thoroughness, for so many people as this

Dario Fo/Milan
Phoebe Tait

Actor, playwright, director, painter, designer... the talents and energy of Italy's Dario Fo seem endless. And in the new exhibit *Dario Fo: The Theatre of the Eye*, just opened at Milan's Sagrato del Duomo Gallery, one is treated to a spectacular collection of 350 water colours, oil paintings, photographs, posters, lifelike papier mache puppets and model stage sets which together illustrate the past 30 years of this controversial man's work.

The exhibition, which moves on to Munich next month and then to Britain, France, Finland, Spain, Denmark, Belgium and Sweden, is striking because it reveals the workings of the flamboyant imagination of the author of *Accidental Death of an Anarchist* and countless other plays.

Included in the exhibition are a number of paintings and designs for the author's most recent play — *By Chance a Woman: Elizabeth* — which is an irreverent though historically based look at two days in the life of Queen Elizabeth I. The play opened in Italy only a few weeks ago and is to move to London several months from now.

Particularly interesting are an assortment of water colours drawn by Fo in London in 1963 and 1964, well before he began writing the play. These, like others in the exhibition, show just how he prefers to concep-

tualise his theatre graphically before turning to the written word.

The exhibition is divided into four parts: there are sections containing videos of various televised performances; designs for stage settings and costumes; watercolours and oils which include some remarkable depictions of stories by Boccaccio; and a selection of colourful posters from productions in Japan, East Germany (where the Berliner Ensemble is still performing *Can't Pay, Won't Pay* eight years after its debut), Britain, Russia and other countries.

Banned by the Italian authorities repeatedly in the 1970s and refused a visa to the U.S. for his leftist politics, Fo is nothing if not controversial; but he is also one of Italy's most creative and prolific contemporary artists, having created productions which range from the fringe to his 1978 adaptation of Stravinsky's *Histoire du Soldat* at the Scala opera house.

His oil paintings, rarely seen by the public, include many works which seem curiously reminiscent of Fernand Leger. This is not surprising, as the 55-year-old Fo collaborated for a time with Leger in France.

The *Theatre of the Eye* is a large and unusual tribute to an artist whose polemical Italian work has somehow found audiences the world over. Once you see the exhibition it is not hard to realise why.

King Priam/Covent Garden
Max Loppert

Kim Begley and Alexander Malta

In celebration of Michael Tippett's 80th birthday, the theatre for which all four of his operas were written has not mounted a Tippett festival, or some other bold, imaginative way of demonstrating its special pride and joy. The Royal Opera has instead revived, for the first time since 1973, the second Tippett opera, *King Priam*. In its original 1962 production, as seen on Monday, it has not worn well — Sean Kenny's sets, once the house's dernier cri in striking theatrical modernity, now look dated, but unfortunately not yet dated enough to have become again fashionable. In addition, the cyclorama was damaged by the lighting mess; even someone who missed the recent, much-praised new-look *Priam* by Kent Opera could be excused for passing judgement on Covent Garden's distinctly old-fashioned.

Yet ingratitude is out of place for there are strong features about the revival. The music is well played under Edgar Howarth's first-rate direction (and, praise be, he is the first Royal Opera conductor to insist on the original scoring). And it is very well, in some instances remarkably well, sung by an interestingly chosen cast. With so much in its favour, no *Priam* performance can be scorned; the brilliant revelation of a new kind of Tippett music-drama that this opera brought with it was on Monday incompletely recovered, yet in the first two acts it still seemed to take its place as a valuable assurance as one of the very few certain masterworks of our day. And even in the more problematic final act, such an assurance was little tarnished.

The company is composed almost entirely of newcomers, only Elizabeth Bainbridge's sterling Nurse being recalled from earlier performances. But Felicity Palmer (making an absurdly belated debut) was the Andromache of the Decca recording, so it is no surprise that her authority, conviction and grandeur of vocal style are so properly well met. And Helen gives to Helen a combination of erotic fascination and cool intelligence entirely new to the role and vividly illuminating of it (perhaps previous experience as Ophelia in *Hamlet* gives some assistance). Hecuba is a less rewarding assignment, but by Phyllis Cannan's delivery of her music—with gleaming top notes, rich timbre and imperious flourishes—she shapes the rigidity of character was removed and something altogether less two-dimensional took its place.

Among the men, Robin Leggate's Paris stands out for grand certainty of stage manner and vocal style. If Kim Begley's Achilles is properly also of Paris stature, his trimly athletic approach to the role and the vocal line does much to compensate for a certain loss of maturity. As the third tenor, Devon van der Walt (the new Barber Almalava), finds for Hermes a wonderful air of freshness and unworldly radiance; for the first time in my experience of the role, indeed, I recognised in the character the quality of the dramatic conception—one of those inexplicable, genuinely operatic inventions in which all Tippett's stage works (even *The Iceberg*) are so strong.

Of the entire cast, which includes Alan Ople's Hector (a touch soft-grained and chubby) and John Gibbs's impeccable Old Man, the single non-native English-speaker is the Swiss (Alexander Malta, who comes new to both the house and the title role. To say his words were not always clear is an obvious point that must nevertheless be pressed, when generally the cast's verbal success rate was unusually high. But Malta commands a dignity of attitude and a flowing warmth of voice that served *Priam* increasingly well; it is already a new attempt at a great part, and will no doubt grow to more than that. As to the work itself: a simple, passionate, all-encompassing salute must here suffice.

Le Pré aux clercs/John Lewis

Rodney Milnes

Hérold's opéra-comique of 1832, *Le Pré aux clercs*, is the most popular example of the genre throughout the 19th century, and since then has similarly sunk virtually without trace. The John Lewis Partnership Music Society's revival on Monday in its fourth-floor theatre revealed a work of wholly irresistible charm and vivacity—qualities hardly in step with our dour times, I know, and so all the more welcome.

The charm is by no means obvious or easily achieved. The musical language is basically that of Auber and Boieldieu—the setting of dialogue within musical number is thus wonderfully skilful and fluid—but Hérold's European travels mean that there is more than the odd dash of Weber and Rossini mixed in. Uneven phrase lengths sustain musical interest as surely as individual shaped melody and consistently inventive instrumentation.

The hit number—whether the heroine's coloratura showpiece that launches the second act or the soubrette's spicing rondo in the third—is not designed, and the whole piece goes with a hie to remind one how much Offenbach learned from French popular opera while in the process of renewing it.

The plot, drawn from Mérimée's *Chronique de Louis XI*, deals with gently sentimental amorous intrigue and lowish comedy in the age of Catherine de Medici, all centred upon the eponymous pleasure garden. The new translation by Jeremy Sams (lyrics) and Marina Harcourt (displays) catches the spirit nicely with intricate, witty rhymes and dry one-liners; Mr Hunter's production is less sure, favouring the Anglo-Saxon bodge over rather the Gallic rapier, and it is presented in a white-faced, would-be commedia-style framework that may have been economical in intention but is tiresomely fussy in execution.

There is some excellent singing, especially from Morag Mackay, sweet and nimble as the heroine, and from Margaret Perry, a starchy and stylish soubrette. Una Bachmann's Marguerite de Navarre is so strongly voiced that her being made to play the role seems all the more unfortunate. The characteristic high writing for tenor causes some problems, but the low comedy is safe in the hands of the society's stalwarts (Brian Kevs, as ever, as ineffably funny pop). James Robertson's wise, unflappable cooing and the vigorous playing of the Cavendish-Sinofletti ensure that in the end musical values triumph over dubious staging. There are further performances tonight and on Friday.

Sinopoli/Festival Hall

Andrew Clements

As originally announced, Monday's Philharmonia programme in the Festival Hall had an intriguing symmetry. *La Valse* was replaced by *Tombeau de Couperin* and something of the peculiar obsessiveness was lost; what remained soon disappeared under Giuseppe Sinopoli's direction.

There is a case to be made for treating *Tombeau de Couperin* as study in the most delicate orchestral textures; with playing of the quality which the Philharmonia would particularly produced, that would have been eminently practicable. But it would have also required a tautness of rhythm and care over phrasing which Sinopoli was evidently unwilling to allow, and so the performance ground remorselessly on, without charm, without grace.

The same straightforward dullness was then carried

through the rest of the evening. Hard to conceive of Strydom's *Poem of Ecstasy* without sheer physical involvement but here it was, predictably noisy at the close, but otherwise shapeless and content to survive from moment to moment, instead of as a sensitive, all-embracing orchestral sound there was a nasty, over-bright clangour, as if some one had turned the treble control on their hi-fi to maximum and left it there.

In Saint-Saëns' third violin concerto Salvatore Accardo provided some welcome understated musicianship, even if his involvement with the music in hand was not entirely convincing. Sinopoli accompanied with a grotesque lack of tact and proportion and went on to reduce Ravel's *Bolero* in the most lurid terms. To turn on their beads the texture of this of all

works is simple perversity, without any musical point; in a place which relies on sheer musicality to make sense, Sinopoli atomised it into meaningless fragments.

Brief and belated praise for the London Sinofletti's staging of *Falla's Master Peter's Puppet Show* which was included in last week's "Beantest" series. The puppets were conceived by Barry Smith on two levels: marvellously entertaining life-size models for the singing roles — lustrous, spindly Quixote, obese Lankespeer, Pinocchio-like Boy and shadow figures for the show itself, the whole thing most satisfyingly integrated. Simon Rattle conducted a pungent account; the singers, Elise Ross, Ian Caley, Stephen Roberts, were robust and forthright even if their Spanish was passingly dubious.

Arts Guide

Theatre

NEW YORK

Cats (Winter Garden): Still a sell-out. Trevor Nunn's production of T. S. Eliot's children's poetry set to jazzy music is visually stunning and choreographically fine, but classic only in the sense of a rather staid and overblown idea of theatricality. (239 8292)

42nd Street (Majestic): An immediate celebration of the heyday of Broadway in the '30s incorporates songs from the original film like *Shuffle Off to Buffalo* with the representative brass and leggy hoofing by O large chorus line. (771 9028)

Torch Song Trilogy (Helen Hayes): Harvey Fierstein's ebullient and touching story of a drag queen from backstage to loneliness incorporates all the wild histrionics in between, down to the ministration with his dressing Jewish mother. (944 9490)

Drumsights (Imperial): Michael Bennett's latest musical has now become a stalwart Broadway presence despite the forced effort to recreate the career of a 1960s female pop group, a la Supremes, without the quality of their music. (239 6200)

Brigadoon (Broadway): Neil Simon. If he wasn't ever before, playwright Neil Simon can expect a long run of his funny as well as touching childhood reminiscences now that the Nederlander organisation has generously decided to name the theatre after the general's outstanding box office draw. (757 8840)

A Chorus Line (Shubert): The longest-running musical ever in America has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions. (239 8200)

Strange Interlude (Nederlander): Gladys Jackson carries on an appreciated tradition of bringing American classics to New York from London in this marathon production in which director Keith Black wisely makes the scenes an integral part of the conversation. Limited engagement ends May 5. (821 8000)

The Real Thing (Plymouth): After 14 months in London, Tom Stoppard's latest puzzle at the English Intelligentsia, with a one-armed attention to the heart that beats beneath the veneer, directed at a fast clip by Mike Nichols. (239 6200)

Sunday in the Park with George (Rocky): Inspired by the Dutch painter, Stephen Sondheim fashions a musical with dots and dashes of song that end too soon but work well with Tony Straiges's pretty set and James Lapine's book which changes gears in the second act. (239 6262)

Noises Off (Brooks Atkinson): The closest Broadway gets to the British farce tradition is this import of Michael Frayn's funny backstage view of the clashing of actors and dropping drawers. (245 9490)

Le Caze aux Folles (Palace): With some untold Jerry Herman songs, Harvey Fierstein's adaptation of the

French film manages, barely, to capture the feel of the sweet and hilarious original between high-kicking and gaudy chorus numbers. (757 8828)

TOKYO

Chorus Line: The Japanese version by the Shiki company, best-known for *Cats*, Japan's longest-running production (one year) and a sell-out. Nissai Gekijo, near Imperial Hotel. (329 4000)

Kabuki (Kabuki-za): Kotobuki Soga no Taimen. Dances, music, and a lot of Kenjincho (matinee); Ebon Takiuchi, Kojo (formal name-taking ceremony), Sukeroku (evening). April sees the beginning of three months of ceremonies to mark a well-known Kabuki family member, Ebon Jekikawa, assume the name Danjuro XII, in unbroken line since the 17th century. The Kabuki world is run by big families, not unlike the system of long-established circus families in Europe. In only the second century, the Kabuki-za's gala programme will continue until the summer. Most of the big names in the Kabuki world will be on stage to lend their congratulations and many of the days will be Ichikawa family specials. One of the favourites is Sukeroku in which Danjuro will play the lead, a dancing hero and champion of the lower classes in 18th century Tokyo. Excellent English programme notes and earphone commentary. (541 3131)

Barefoot in the Park: The Japanese version of Neil Simon's play directed by Yutaka Kobayashi. Long Run Theatre, Shimokitazawa. (344 0881)

The Teeth of Crime: A translation of Sam Shepard's musical directed by Sakumi Hagiwara, produced by Parco/Engine Room. Stars Eiji Okuda, Senoie, Shinya Parco Part 1, 9th floor. (477 5890)

LONDON

Noises Off (Savoy): The funniest play of the year in London, now with an improved third act. Michael Blake-More's brilliant direction of backstage shenanigans on tour with a third-rate farce is a joy factor. (888 8888)

Starlight Express (Apollo Victoria): Andrew Lloyd Webber's roller-skating folly has 10 minutes of Spielberg movie magic, an exciting first half and a dwindling reliance on indiscriminate rushing around. Disappointing. Stars Warr and Cate are all influence. Pastiche score nods towards rock, country and hot gospel. No child is known to have asked for his money back. (834 8184)

On Your Toes (Palace): Rodgers and Hart's 1938 musical is a genuine tonic. American jazz dance collides with the Ballet Russes. Gems include *There's a Small Hotel*. Glad to be in the Palace score nods towards rock, country and hot gospel. No child is known to have asked for his money back. (834 8184)

42nd Street (Drury Lane): No British equivalent has been found for New York's Jerry Orbach, but David Mer-

rick's tap-dancing extravaganza has been rapishly received. American Clare Leach is a real find as Peggy Sawyer, and Margaret Courtney has a field day (836 8188).

Me and My Girl (Adelphi): Sweet, efficient and enjoyable revival of Britain's biggest war-time musical led by Robert Lindsay in the Lipito Lane role emerging as the best new musical star since Michael Crawford. (836 7811)

Other Places (Duchess): Colin Blakely and Dorothy Tutin in a reassembled trilogy of Faber plays: *A Kind of Alaska* in which a victim of sleeping sickness awakes after 29 years; *Victoria Station*, a funny throw-back to Finer's early revue sketches; and last year's *One for the Road*, a chilling piece of intimidatory police state confrontation with first futuristic hallucinations of political despair. (836 8243)

The Case of the Missing Countess (Queens): Charlotte Heston walks carefully on and off in Herman Work's famous courtroom thriller without disturbing too many members of *Sagat on Film*. In the second act, he even does a little, which proves rather more alarming a spectacle than when he is merely heaving himself around in a somnambulist daze. (734 1186)

The Government Inspector (Olivier): Striking but unimpressive revival with under-equipped TV comic Rik Mayall playing the possum as a shrieking nose-picker. Richard Byrne's production for the NT lacks either comic tension or true delirium but, with John Gutteridge's imposing design of bureaucratic bunnies, the show has a

sort of monumental stinkiness as well as nightmarish tedium. New translation by Adrian Mitchell. (828 2232)

Baron (Victoria Palace): Michael Crawford returns to London with his breathtaking performance as the circus impresario, adding one or two new tricks in a likeable mélange of a musical. (834 1317, 836 4733)

Jumpers (Aldwych): Confident almost sober revival of Tom Stoppard's glittering comedy of love, murder and linguistic mayhem among the logical positivists, with Paul Eddington a more earth-bound George Moore. It then was Michael Hardin, Felicity Kendal delighted as his retired musical comedy wife. Peter Wood directs. (836 8494, 379 8233)

Richard III (Barbican): Last year's Stratford-upon-Avon production with Antony Sher demagogically exciting as Richard in the RSC revival by Bill Alexander. Plays in repertory with Roger Rees as Hamlet and Kenneth Branagh as Henry V. All worth seeing. (828 5795, 538 6891)

NETHERLANDS

Amsterdam: The American Repertory Theatre (Kerkstraat 4). Play by Pam Gems, directed by Raphael Bran-D. (All week except Mon and Tue). (254 945)

Amsterdam: De Stalhouderij (Eerste Bloemendrecht 4). The English-Speaking Theatre of Amsterdam with Kray's Last Tape by Samuel Beckett. (262 2182)

Saleroom/Annalena McAfee

Armour fetches £5,500

A suit of armour dated 1640 was sold for £5,500 at Sotheby's yesterday. The cuirassier's armour, three-quarter length with helmet and visor, was bought by the London dealer Peter Dale in a morning sale of arms, armour and militaria. A total of £79,420 was made, with 15.32 per cent bought in.

An unusual 19th century firing mechanism in a pyramid shaped wooden case, estimated at £1,200 to £1,800, was bought for £5,170 by the London dealer Peter Finer; while a private buyer paid £5,400 for a full Victorian cuirass in armour in the style of the 16th century.

An early 17th century South German hunting sword with a decorated blade was sold for £2,640 to a private buyer; and the American dealer Condon bought an Imperial German helmet (late 19th to early 20th century), surmounted by a crowned eagle, for £1,540. A late 18th century cavalry officer's sword, believed to be French, fetched £1,430 from the dealer Spencer.

A total of \$83,418 was realised at Sotheby's morning sale of watercolours in Fulbourn yesterday. Only 2.7 per cent of the lots were left unsold.

"Deer in a park" by Robert Hills, dated 1815, was sold for £2,970 to Agnew's. A private buyer paid £2,530 for Sir Alfred Munnings' study "Near Haddiscove" Norfolk, dated 1902, and estimated at £800 to £1,400. A pair of still life paintings by William B. Hough, "Dog roses and birds" and "Grape and peach," fetched £2,810. The buyer was the London dealer Solomons.

"Breaking the Silence" for the Mermaid

The Royal Shakespeare Company's production of Stephen Polonsky's new play *Breaking the Silence* is to move to the Mermaid Theatre (premiering from May 16) following its successful season at The Pit in the Barbican.

Alan Howard and Jenny Agutter will join the cast.

New artistic director

Nicholas Kraemer has been appointed artistic director of the London Bach Orchestra, with immediate effect. He is working on a series of concerts with the orchestra to be held in English Cathedrals next season.

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Europe's gap in technology

A FAMILIAR THEME in European industrial policy has been the fear of U.S. and, more recently, Japanese domination in high-technology industries. The anxiety is that Europe will be caught in a pincer movement between the Japanese on one side, using their remarkable strength in consumer products to attack other sectors of the electronics industry, and the Americans on the other, feeding off huge Defence Department expenditure to develop advanced technology for civilian markets. President Reagan's Strategic Defence Initiative will give U.S. industry, it is thought, an even bigger advantage, threatening to consign Europe to the status of sub-contractor or licensee.

It is this spectre which lies behind the French Government's proposals for a European Research Co-ordination Agency, nicknamed Eureka, which has been discussed with other European governments in Bonn this week. Are these worries justified and is the French plan an appropriate response?

There has long been controversy over the extent of civilian spin-off from U.S. defence expenditure. Some believe the build-up of spending on high-technology products and systems under President Reagan has diverted scarce resources away from commercial applications into military work. Others, including some European competitors, see the more recent Defence Department research programmes, particularly in advanced semiconductor and computers, as part of a conscious effort to wrest technological leadership back from the Japanese. The ostensible objectives are military, but the practical results in civilian markets will be far-reaching.

Civilian outlets

While it would no doubt be more cost-effective to support civilian technology directly rather than through the defence budget—if that is the objective—it is certainly true that some U.S. high-technology companies derive considerable benefit from the existence of the Defence Department as a large customer for their most advanced equipment. It is not so much the sponsorship of research which is important as the procurement of components and machinery on a sufficient scale to give the supplier a base on which to develop civilian outlets.

These conditions cannot easily be replicated in Europe because there is no European Defence Department. Attempts to unify the European military market have often been hampered by national rivalries, as the bickering over the proposed new fighter programme shows. Moreover, the problem with the Eureka proposal, as with the EC's Esprit programme, is that while they may usefully encourage the habit of collaboration among European companies, they are confined for the most part to pre-competitive research, which is not where Europe's weakness lies. It is in the development and commercialisation of saleable products where economies of scale are vital and where Europe continues to suffer from a fragmentation of effort.

In contrast to industries such as trucks or domestic appliances, where companies like Daimler-Benz and Electrolux are able to operate efficiently on a European scale, most non-consumer electronics sectors, including those related to defence, still tend to be organised on a national basis, with the result that few of the companies are internationally competitive. This is one of the reasons why European high-technology companies are so keen to establish themselves in the U.S. However, access to the U.S. defence market is not easy for foreigners; it is unlikely that the invitation to European companies to participate in research on the SDI programme will alter America's protective attitude to its own defence industry.

Parallel efforts

Public procurement in Europe, both military and civilian, can and should play a useful role in promoting economies of scale, but only if the procurement is organised on a European basis and if government departments are prepared to see the emergence of a product rather than the present eight or nine; the habit of protecting national champions has to be broken.

Europe is not short of scientific talent and expertise for their most advanced equipment. It is not so much the sponsorship of research which is important as the procurement of components and machinery on a sufficient scale to give the supplier a base on which to develop civilian outlets.

Westminster and the City

TODAY the House of Commons debates the White Paper on financial services, returning to the subject of investor protection which MPs previously considered last July. At that time, however, Conservative members with City connections embarrassed the Government by calling vociferously for the creation of a tough statutory body—apparently clashing with the official preference for less aggressive agencies delegating most of their responsibilities to subsidiary self-regulatory bodies.

Since then, the Government has produced its detailed White Paper, and has begun to set up a new body, Sir Kenneth Berrill, has been appointed chairman of the Securities and Investments Board, and has been given the urgent task of setting up an order of inquiry. This has not yet been selected, but 10 members have been chosen for the parallel Marking of Investments Organising Committee under the chairmanship of Mr Mark Weinberg.

The final character of the regulatory structure has yet to become clear. There is no argument about the basic need for a balance between statutory regulation and self-regulation—the type of formula that is followed even by the Securities and Exchange Commission in the U.S. But in practice much will depend on where the balance is eventually struck.

At this stage, however, MPs may still have misgivings. Sir Kenneth did not make an encouraging start by suggesting that he was more interested in promoting the City of London as an international financial centre than in policing the markets, implying that the cart might be getting in front of the horse. Secondly, there has been an unnecessary and still unresolved dispute over whether there should be one agency or two—an argument which derives from the split of responsibility between the Department of Trade and Industry and the Bank of England. This does not augur well for the future.

The danger is that momentum will be lost as the organising

FLYING will commence at 11.30 am, says the invitation from British Aerospace to a grand display and exhibition of its wares today, which should mark the final run-up to the massive sale of shares in the group planned a few weeks from now.

The display will begin with a fly-past by an A-310 Airbus: a product of the Airbus Industrie (AI) consortium in which BAE holds a 20 per cent stake—and a symbol, too, of BAE's commitment to the Airbus bid against Boeing Company of Seattle for a future share of the world's civil aircraft market.

Investors will be asked next month to spend perhaps up to £400m buying out the Government's remaining 48 per cent stake in BAE, thus completing the privatisation of the group begun in 1981. A simultaneous right issue could put as much as £200m directly into the coffers of BAE itself.

Yet the group's current balance sheet already boasts a net cash surplus over debt of £82m. BAE clearly envisages a busy capital spending agenda, and the Toulouse-based AI is just as clearly a key item on the list.

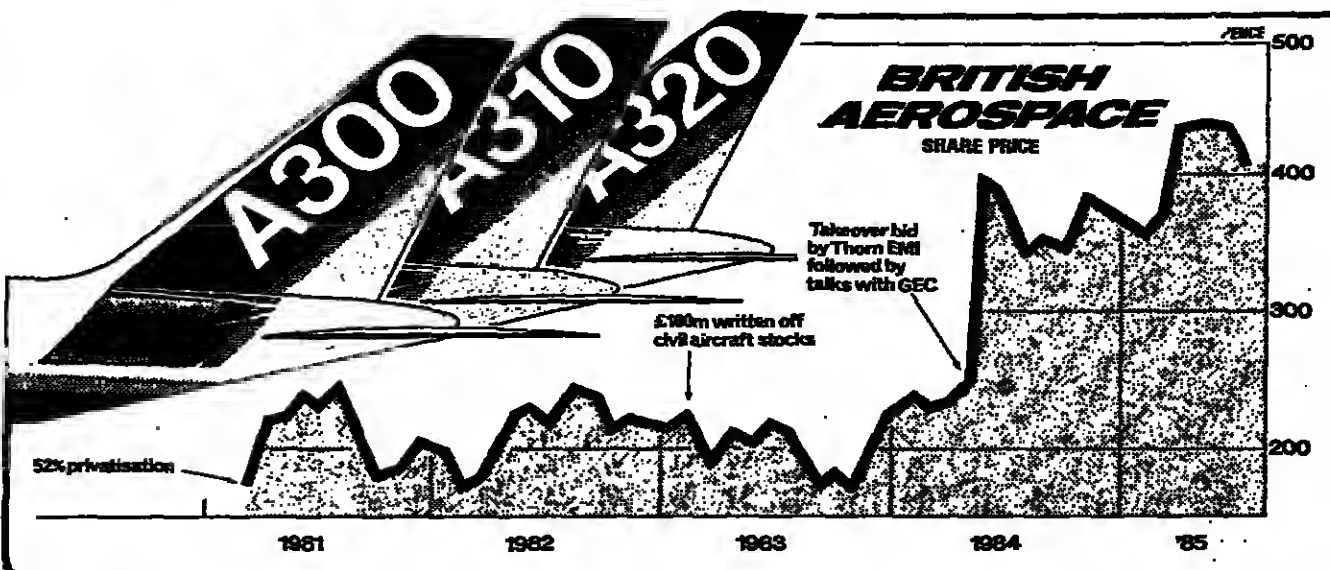
AI's next big project—which, as it happens, will occupy Concorde's old assembly hangar in Toulouse—is the A-320 Airbus. This alone, an innovative wide-bodied aircraft for short-haul routes which is due to fly in 1987, could call on BAE for £380m, to go by the group's own public estimates. This compares with a total capital expenditure for the five years to December of £323.8m—covering all BAE's activities, from military aircraft and guided missiles to electronic defence systems, satellites and other civil aircraft.

Given the scale of the Airbus investment, it is perhaps surprising that the City still appears to have only the barest understanding of what AI is and what it could mean for BAE's future cash needs and profitability.

But the lack of information is glaring. AI itself gives the stockbrokers little or no help at all. BAE points to the danger of leaking useful information in Boeing. The Department of Trade and Industry declined to discuss Airbus for this feature. Neither the 1981 privatisation prospectus nor the preliminary document for next month discloses more than the vaguest hints of AI's progress. BAE's head of public relations, Mr Bernard Friend, says the group might make £25m a year out of AI after 1988—but like the rest of the City, it has no idea of AI's losses, past and still to come.

The available information on AI can be summarised under three headings.

AI's present finances. "Airbus is a multi-billion dollar company," says Mr Bernard Friend, BAE's finance director. "The market we are looking at is worth literally billions of dollars."



profits or losses between the consortium and its owners is so wholly discretionary as to leave AI's books virtually meaningless if viewed in isolation from the Airbus accounts kept by the owners which means no figures are produced at all. They exist, but neither AI nor the owners will disclose them publicly.

A great deal hangs on the A-320 project

As for the disposal of its revenues, AI last year spent about 30 per cent of its turnover on the payment of third party suppliers—most notably for Airbus engines—and on settling its own operating expenses. The first Airbus programme was for 400 A-300s, with break-even expected when about 300

had been sold. To date, 251 have been sold, but there is little or no prospect of profitability—the production schedule is now down sharply and the break-even point has slipped over a year. The A-300s have been sold over a year during the soaring industry recession of 1982-84.

Losses incurred on the A-300 have been taken for much the same reason on sales of the second, A-310 Airbus. Out of a 300 production schedule, probably 200 would mark break-even and 115 have been sold so far.

A great deal, in other words, hangs on the A-320. Best estimates are that 400 of its 600 planned production would just see the A-320 through to profitability, but its advocates believe it could then prosper hugely from the anticipated demand for wide-bodied aircraft in the 1990s. "There is a tremendous market out there," says Mr Bernard Friend, BAE's finance director. "The market we are looking at is worth literally billions of dollars."

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And third, levies are repayable by AI out of its sales proceeds to reimburse the parents for their capitalised development costs. Last year, about 60 per cent of turnover went on component costs, leaving—after the direct costs—about 10 per cent for levies plus interest payments on money lent by the parents.

One day, AI hopes to add net group profit as a crucial fourth source of income for the parents' current accounts. To date, though, the various transfers in and out of the accounts—which are cleared every 10 days—have undoubtedly left each parent with a net accumulated loss, which all four have tucked away on their respective balance sheets.

BAE's accounts give little clue of all this activity. Neither money paid to AI nor receipts collected for parts, contract work and levies are shown separately. Footnote No 17 to the balance sheet only shows an aggregate item of £278.6m to include both the running net loss on BAE's current account with AI and BAE's share of AI's current stocks. The Airbus also accounts for a big part of a second item of £195.9m to cover development costs. But the two items taken together at least indicate the size of BAE's commitment and compare with shareholders' funds in the group of £918.6m.

AI's commercial viability. Not the least curious aspect of next month's Government sale is that the vendor should know so much more than the market about the package on offer.

Whitehall economists and accountants spent the best part of two years scrutinising AI's accounts to assess BAE's application for £250m of A-320 launch aid.

BAE's own sophisticated analysts posed a wide range of assumptions. But the central case using those thought most likely projected a return of just 2-3 per cent. The Treasury noted that the A-320 was there-

fore a bigger investment for an even smaller return than earlier AI projects and it advised the Cabinet to reject the aid request.

Even champions of the Airbus acknowledged that the narrow financial case for going ahead with aid was marginal. Broader strategic considerations were therefore urged on the Government and the Treasury was over-ruled.

Predictable broadsides from Boeing

BAE itself protected against UK and wider European strategic considerations being foisted on it in the Toulouse business in the future?

There is little doubt BAE does genuinely see its AI stake as a long term money spinner. The group's management has been touring the country in recent weeks, treating investors and managers to an array of other things, a lavish assortment of charts and graphs plotting the arithmetic of profitable aircraft manufacturing.

Nor has the group been in the least dismayed by predictable broadsides from Boeing, challenging AI's estimates of the market for Airbus. "In effect, the Americans are just trying to say we in Europe can't fight our way back into the world aircraft market," says Mr Bob McKinlay, head of BAE's Filton operation and a permanent advocate of the A-320. "But that's ludicrous. They are just trying to preserve their dominant position."

BAE will be labouring, though, to overturn this position as the

only private sector member of the AI consortium—albeit a company with some unusual strengths. Thanks to the £250m aid finally signed up on March 20, for example, it will be able to call on public sector money (let alone undisclosed borrowing costs) for all its share in the anticipated costs of the A-320 for the next couple of years.

In the City, too, BAE is still being given the benefit of the doubt as far as Airbus is concerned. In part, the broking community seems happy to remain agnostic about AI's prospects: they seem unlikely to hit BAE's pre-tax line in the near-term. BAE's shares on a prospective price/earnings multiple around 7x already reflect the uncertainty, and the Airbus item is far from the only mystery ingredient in BAE's accounts as far as most brokers are concerned. But there is also a broad confidence in the group's prospects, and the generally warm reception accorded the build-up to next month's share sale.

Neither taxpayers' help nor City support, however, will provide BAE with anything like adequate protection in the event of a chronically uncommercial operation in Toulouse. Inevitably, the UK parent must rely on its own influence over the consortium to ensure its genuine, if long-term, profitability.

BAE already has a reputation with the other partners for a rather mercenary outlook. "We have an excellent co-operating relationship," says Mr Henri Martre, chairman and chief executive of Aerospatiale; but Mr Pierre Chertier, his group's controller general, is quick to add that people from BAE "have always been very professional and extremely commercially minded."

This impression could soon be heavily reinforced. From 1979 to 1984, BAE was conscious of its status as a Johnny-Come-Lately at AI—having joined only in 1979, ten years after AI's launch—and only gradually asserted itself. After securing key changes in the management structure in 1982, though, it succeeded within a matter of years in joining in an operation geared largely to the hard selling of aircraft. Since the departure of M Bernard Lathiere as chairman and the recent appointment of new top management, BAE has taken a more confident line, sharing its own business philosophy.

BAE would now like to see AI regaining some of its former autonomy, this time combined with a more powerful financial control from the head office in Toulouse. Indeed, key changes in this direction are already looming.

But so, too, is a decision over whether to press ahead with a new aircraft, the TA-11, before the A-320's commercial future is anywhere near assured. The Germans are pushing BAE to pull back. Such decisions could make it uncomfortable being a cuckoo in the Airbus nest.

Wall Street to Washington

John Whitehead, named for the number two job at the U.S. State Department, represents one half of the most successful Wall Street team of the last decade.

Until his retirement a few months ago, Whitehead was co-chairman of Goldman Sachs, the bluest of blue chip New York investment banks, working in tandem with John Weinberg. The two men made this improbable style of leadership work exceptionally well. Whereas other leading Wall Street houses, notably Salomon Brothers and Lehman Kuhn Loeb, suffered his upsets because of dual power-sharing at the top, Goldman has forged ahead since 1976 under the Whitehead-Weinberg regime without any visible evidence of a hitch.

Goldman is the firm other Wall Street houses tend to admire most and it has managed to maintain its private partnership structure against the odds. Most pundits believe that partnerships cannot survive because of the escalating need for capital in investment banking.

Whitehead and Weinberg have

Men and Matters

managed this relationship, too, despite deep political differences. For years, Whitehead and Weinberg have been the most successful Wall Street fund raisers for Republicans, while his co-chairman has been equally fiercely devoted to the cause of the Democrats.

With that and a headquarters in Wichita, Kansas, he inevitably conjures up images of 10-gallon hats and crocodile-skin boots. But like another new famous oil man, T. Boone Pickens, Slawson apparently goes in for sober suits and talks more like a banker than a wildcatter. He also shares Pickens' passion for baseball.

A number of British independent oil companies, I gather have made the pilgrimage to Wichita in recent months, lured by tales that Slawson and his companies can offer that elusive prize—reliable, profit-making advice on U.S. oil and gas properties.

According to one of those visitors, Slawson is successful because he is choosy. It is said that out of 800 deals investigated in recent months, he signed up for only seven. "I'm also impressed that he stayed out of the market at the right time. That's the hardest thing to do," says his admirer.

Slawson's background was Wharton School of Economics and training as a geologist before turning his first oil deal 28 years ago.

Among those who have already talked to Slawson Oil are British and Enterprise Oil, two

cash-rich bargain hunters. RTZ, which is not short of funds either, is hoping for some Slawson magic in its U.S. oil and gas business, which has so far struck nothing but losses.

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Russian ride

Since the days of Russia's President Brezhnev and his well-known penchant for luxury cars—had a big collection of the finest Western models—the East-West trade in top class cars has not attracted much publicity.

Now some captains of Finnish industry are putting the usual flow of business into reverse. They are ordering Tshalkas—the big Russian limousines—to impress visiting Soviet business partners, and their Western friends as well.

Among the buyers are Karl Kalvainen of the electronics company Nokia, and Tankmar Horn of shipbuilders Wärtsilä.

The Tshalka is a big car—always painted black—which is usually seen speeding along the special VIP traffic lanes in Moscow with tinted windows to shield the occupant from the proletariat.

It has a 5.5-litre V8 engine that gives 110 miles per hour and it weighs a mighty 3,100 kilos compared with just over 2,000 kilos for the Mercedes Benz 500 series.

I hear that the Finnish industrialists hope to get their cars from Moscow by May Day.

Staff at a hospital near Manchester are still recovering from the shock of discovering the novel method devised by a patient to breach a wall of secrecy he encountered when seeking information about his own illness.

It came to light when an official rounded off an informative response to an apparently routine telephone inquiry about the progress of a patient.

He asked whether the inquirer was a relative. He was told, "No. I'm the patient. They tell you nothing in here."

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The Bonn summit

Why U.S. budget deficits are the key for Europe

By Martin Feldstein

THE SUMMIT meeting in Bonn this year should be a turning point in the economic debate between the U.S. and Europe and in the prospects for European economic recovery and employment. After the European leaders have had a chance to repeat their now familiar justified criticism of the American budget deficit and the Americans have replied with their critique of the status quo in Europe, the participants can move on to a more realistic assessment of the present favourable outlook for Europe and to the very positive implications of this for the economies of Western Europe.

The fact that makes this year's summit different from the summits of London, Williamsburg and earlier years is that it is now likely that the American budget deficit is about to be brought under control. President Reagan will be able to tell his European partners that he has recently reached a deficit-reducing agreement with the Senate Republican leadership and that he is working very hard for the passage of these spending cuts. If these spending cuts are enacted, the budget deficit will shrink from the currently projected 5.5 per cent of GNP to only 2.5 per cent of GNP by 1988. Although Congress will not enact this legislation without first making changes, it is likely that legislation will be passed by the end of the summer that puts the deficit on a sharply declining path. By 1988, when the enacted spending cuts are fully phased in, the deficit will be about \$100bn below the currently projected level and therefore down to about 3 per cent or 3.5 per cent of GNP.

What President Reagan will say is that an increase in tax revenue will also be needed to bring the 1988 deficit down to 2 per cent of GNP and to put the budget on a path to balance by early in the next decade. But the European summit team reasonably expect that the major tax reform that the President is actively sponsoring will provide a basis for an increase in tax revenue.

The declining budget deficit will have important effects not only for the U.S. but for Europe as well. Within the U.S., the reduced deficit will mean lower real interest rates and a substantial rise in the funds available for investment in plant and equipment and in housing. The lower real interest rate will reduce the attractiveness of American securities to foreign investors and cause the dollar to decline further relative to other major currencies. These changes will have three important effects on the economies of Western Europe.

First, the lower dollar will reduce the price advantage of European goods that compete

with American products in the U.S. and Europe elsewhere. European firms will see their export earnings decline and the pressure for imports increase. Since increased exports have been an important source of demand in the current European recovery, the direct effects of this reduction in exports and increase in imports will be to reduce economic activity in Europe. This slowdown in the demand for European products will be reinforced if the reduction of the American budget deficit causes a temporary slowdown or decline in the American economy in 1986.

Second, the fall in the real interest rates on American medium-term and long-term securities will be mirrored automatically by a decline of the corresponding real interest rates in Europe. As the flow of interest-sensitive capital to the United States abates, the demand for European securities will increase, raising the price of European bonds and thereby depressing the interest rate. The reduction of the capital outflow from Europe will mean more European investment, thereby raising labour productivity and narrowing the gap between productivity and wages that has been the primary source of rising unemployment since the early 1970s.

Third, and perhaps most significantly, the fall in the dollar will permit the European central banks to pursue more expansionary monetary policies. During the past five years, the falling value of the pound, the German mark and other Euro-

pean currencies relative to the dollar, has put upward pressure on prices in those countries. To prevent that pressure from initiating a new round of domestic inflation, the European governments have been forced to pursue tighter monetary and fiscal policies than they would otherwise have chosen. These tighter monetary and fiscal policies have prevented stronger recoveries and have contributed to the rising rate of unemployment that now plagues all the major European nations. In the future, the declining dollar and the rising value of the European currencies will put downward pressure on domestic prices in Europe. This more favourable environment will provide the opportunity for European governments to pursue more expansionary policies without raising existing inflation rates.

Let me be very clear about what I am saying about the link between the American fiscal situation of the past several years, the resulting rise in the dollar and the increasing level of unemployment in Europe. I am certainly not saying that all of Europe's current abnormally high unemployment can be attributed to the U.S. fiscal situation. There is no doubt that European real wages in the 1970s outstripped the natural increase in productivity and forced employers to reduce employment in order to raise productivity to the imposed real wage levels. The contrast between the U.S. and European experience in the 1970s is striking. Between 1970 and 1980, real



President Reagan: deficit-reducing agreement.

earnings per hour actually declined in the United States while employment rose more than 25 per cent. But in Europe during the same decade, real wages continued to rise at a substantial rate. The unemployment caused by the excessive real wage was exacerbated by the rigidities of the European labour markets.

Although excessive real wages and basic labour market rigidities raised the European unemployment rates in the 1970s, the rising U.S. dollar since 1980 has led to higher European unemployment because it has induced European governments to pursue contractionary policies designed to offset the inflationary effects of their falling currencies. Because the rigidities of the European labour markets reduce the responsiveness of inflation to the rate of unemployment, it has taken a substantial rise in unemployment in Europe to offset the inflationary pressure that resulted from the rising dollar.

In the future, a protracted decline in the dollar will mean less inflation in Europe and therefore a more rapid growth of output and employment at any rate of expansion of nominal GDP. The European governments and their central banks may simply accept these more favourable consequences of maintaining the existing growth rates of their monetary aggregates. Alternatively, they could take advantage of the reduced inflationary pressure to raise the rate of money growth temporarily, thereby reducing

unemployment more and inflation less.

The likelihood of a significant decline in external demand during the next two years provides a further reason for the European governments to pursue more expansionary policies. Targeted tax incentives aimed at raising the rate of investment would not only help to maintain and expand aggregate demand but would also contribute to achieving the increases in labour productivity that can raise demand for the labour that is currently unemployed because wage levels exceed the potential productivity of the unemployed workers.

The Bonn summit will provide an opportunity for the European leaders to congratulate President Reagan on the progress that he appears to be making toward reducing future budget deficits. They will no doubt want to emphasise the worldwide importance of actually achieving major deficit reduction legislation this year and therefore to encourage him to make the compromises that will be needed to get such legislation through Congress in the months ahead. With the expectation that American budget deficits will decline and that the dollar will fall substantially further, the European leaders can also use the summit to resolve that they will pursue the kinds of monetary and tax incentive policies that will raise output and reduce unemployment in the years ahead.

The author is Professor of Economics at Harvard and a former chairman of the President's Council of Economic Advisors.

Traditional industries

The case for operating across frontiers

By Ian Rodger

MATURE HEAVY industries appear to have little to recommend them these days. Profits in most cases are poor, capacity is usually excessive and the future seems to offer little but further contraction and redundancies.

But on the old silver lining principle, it is becoming apparent that these sectors can provide useful opportunities for learning how to create truly European industries.

Economists have often bemoaned the slowness of European industrialists to fulfil the promise of the European Community by transforming national enterprises into European ones. Many explanations have been advanced for this, and for the failure of some trans-European industrial ventures, such as the Dunlop-Pirelli and Hoechst-Hoeghovens mergers.

But despite the failures, no one doubts that the need for trans-European industries is, if anything, greater than ever. The challenge of competing with giant U.S. and Japanese companies is growing in many sectors, thus highlighting the need for as large a "home" market base as possible.

The opportunity in the heavy industries arises from the need in most of them for significant rationalisation. It is a good bet that, in most cases, the rationalisation would be less painful and more likely to lead to a quick recovery if done on a European, rather than a national, level.

This was the idea behind the creation of IRI of West Germany in the construction equipment field a few years ago by acquiring companies from Massey Ferguson, General Motors, Powell Duffryn, Babcock and others. But the company became so preoccupied with acquisitions and sales that it never got around to rationalisation. When the recession hit in the early 1980s, it was too weak to cope, and went bankrupt in 1983.

European-style rationalisation is currently being attempted in the welding and cast iron pipe industries. In welding, the Swedish group, EASE, has bought out the welding subsidiaries of BOC of Britain and Phillips of the Netherlands in the past two years, giving it a very strong position in the

European market.

More recently, Pont-a-Mousson, the French pipe maker and subsidiary of the state-owned Saint-Gobain building materials and engineering group, has consolidated the sector through new investments in Italy and Spain and, last month, the acquisition of Stanton & Staveley from the British Steel Corporation.

Iron pipemaking is already an international industry. Iron pipe is used in waterworks, mainly for water conduits but increasingly for sewage as well. Turnover worldwide is around \$1.7bn a year, with the main markets in the U.S., Japan and Europe accounting for 70 per cent of annual world consumption of 1.5m tonnes.

However, these markets are mature, and captive to national producers. Of more interest are the markets in the developing countries which spend heavily on infrastructure when they can afford it. Euro-

variety of sizes are involved, producers can cut costs by having long runs of each size.

Another reason for size is the cost of technological development. At first glance, iron pipe making appears a well-established technology, with the centrifugal casting process dating from 1919 and ductile iron making from the 1930s. But the technology of all materials seems to be advancing rapidly these days, and ductile iron is no exception.

Pont-a-Mousson has a large research, development and engineering operation adjacent to its major factory near Nancy. It now employs 170 engineers and spends some FFfr 225m a year, about 9 per cent of group turnover. That sort of effort too requires a broad base.

As often happens in trans-European takeovers, Pont-a-Mousson's bid for Stanton & Staveley in Britain ran into considerable political opposition last year. The immediate reaction in government circles, as an insider recalls, was: "What the hell are we doing trying to privatise something by selling it to the French Government?"

But Stanton on its own had nowhere to go. Once Pont-a-Mousson's main rival in world markets, it had languished since becoming part of the nationalised BSC. UK dominates the small UK market (140,000 tonnes a year) but its share of the main export markets dropped from 27 per cent in 1968 to 7 per cent in 1983 and it could not hope to compete in the same cost and technological league with Falm Kubota.

Fortunately, cool heads prevailed and the business was sold to Falm, which has undertaken to maintain the three factories and the workforce, at least for a while.

The French company takes the view that operating on a European scale requires a highly decentralised structure, with national companies having considerable autonomy as long as they perform. M. Francis Mer, the chief executive, told the Stanton managers when he first visited them that it was up to them to secure their future by using Falm's resources to the full. That is not an easy challenge but it is a better one than Stanton faced on its own.

Injustice of the Rent Acts

From Mr D. Kidd

Sir,—While Sammel Brittan's article (April 15) advocating the abolition of the Rent Acts is cogent for the utilitarian reasons he ably marshals, his case would have been unassailable had he mentioned the decisive ground for ridding the statute book of this scourge—namely, the rank injustice of the Acts. The problem with utilitarian reasoning is that it suggests abolition is contingent on its perceived success in reducing unemployment and homelessness.

The injustice of the Rent Acts as they affect landlords is flagrant and shocking. It consists in confiscation of their property without compensation. This is against any civilised concept of law and the Small Landlords Association is pursuing a claim under the European Convention of Human Rights which forbids forced labour and, albeit with wide derogations, protects property to a limited but not the convention is a broken reed does not affect the justice of the landlords' case.

The injustice of the Acts as they affect tenants is less visible but no less shocking. It derives from the fact the Acts operate by creating statutory tenancies not founded in agreement. To achieve this tenants are deprived of their property to a limited but not the convention is a broken reed does not affect the justice of the landlords' case.

It is because it is a matter of right and justice that there is no excuse for the government to delay and temporise over the abolition of these Acts. As Samuel Brittan says this matter is a test of the government's sincerity and earnestness of purpose. If Ministers cannot rid the country of Acts creating artificial shortages, what hope can the nation have that they have the courage and ability to

Letters to the Editor

deal with real economic problems.
David J. Kidd,
48 Park Avenue, N.22.

Generating plant

From Mr T. Miller

Sir,—Your news item "Power Stations compete in 'cost' league" by David Fishlock (April 15) gives the impression that the economic scheduling of generating plant is something new. If this was implied by Sir Walter Marshall he was being very unfair to the engineers who developed the method many years ago, and if it was not implied, then your Science Editor is guilty of misrepresenting him.

The engineers who built and operated the Electricity System long before Sir Walter was appointed were well aware that out of merit generation could cost many thousands of pounds per day and were quite capable of scheduling the operation of generating plant to reduce such costs to a minimum.

With existing nuclear power stations it is to be expected that the low running costs would place them at the top of the merit table, but to say that they produce electricity cheaper than the best coal fired station such as Ferrybridge is a little more than a critical assessment of total cost based upon something less than 100 per cent optimism about construction times and future prices for fuel would show that the cost difference per unit of electricity between nuclear and coal is marginal.

T. Miller,
80, Kings Avenue, SW4.

Trade and diplomacy

From the Director-General, Institute of Export.

Sir,—Some of Mr Richard Oake's comments on trade and diplomacy (April 12) surprise me. Since the days of the so-called Flounden report the diplomatic service have regarded trade promotion as the first call on their resources and I can think of no senior ambassador in recent years whose career did not include at least one trade promotion post. As a former member of the service, I am sure that doing well in trade promotion posts was and is a road to promotion; surely that must make trade promotion work a motivator, quite apart from the motivation supplied by the policy of successive Governments and evident national need and interest.

Mr Oake could be on stronger ground where training is concerned and this Institute would certainly welcome it. It were the Foreign and Commonwealth Office to send more of their young entrants onto courses leading to our examinations. Nevertheless, much of the detailed trade promotion work is entrusted to locally engaged businessmen, chosen for their knowledge of local markets. My experience as a commercial counsellor is that, quite properly, businessmen expected to tell me about their business and looked to me for an assessment of the local political and economic scene. They needed the Embassy's help with government contacts and could exploit the Embassy's social pull for marketing purposes. In a word, they most needed a service that is best provided by an Embassy that is doing its natural function efficiently.

D. N. Royce,
64, Clifton Street, EC2.

British Telecom shareholders

From the Chairman, British Telecom

Sir,—Your report (April 20) headed "BT share register to top 1.7m" had me saying that large numbers of the shares would quickly find their way into institutional and professional hands.

In fact, I said that the size of the company's share register with over 1.7m shareholders was very encouraging and this confounded the pessimists who claimed that individual shareholders would sell out. The results of a recent MORI survey confirm that almost all of our present investors intend to hold on to their shares.

(Sir) George Jefferson,
81 Newgate Street, EC1.

Huddersfield is handsome

From the Public Relations Officer, Kirklees Metropolitan Council.

Sir,—While applauding the excellent reply from Richard Wainwright, MP (April 10), to the unjustified criticism of Huddersfield town centre by Colin Amery, I feel it is essential to give some additional information on the steps being taken by Kirklees Council to encourage development and preserve Huddersfield's architectural heritage.

St George's Square, containing the famous railway station

and high class Victorian buildings, was declared a conservation area in 1968 by Huddersfield County Borough and this conservation area was widened in 1981 by Kirklees to cover the majority of the town centre. As Mr Wainwright points out much restoration work has been carried out by Kirklees on properties in the town centre. Discussions are currently being held with British Rail in connection with refurbishment works to the railway station. Many other buildings have been restored to their former glory and, most important, have been successfully re-let for shopping and business purposes. In addition, new development has only been allowed in a strictly controlled manner and this has further strengthened Huddersfield's role as one of Yorkshire's major town centres. All of this points to a positive commitment by Kirklees and demonstrates the growth rather than decline.

Regarding Mr Amery's comments on grand warehouses being empty and a non-conformist chapel being "ripped apart," all I can say is that although, for instance, the former railway goods shed is empty, various proposals have been put forward for its future use. Likewise a scheme has been submitted to the council for the conversion of a chapel into flats. I must stress, however, that there is no way that this council will let buildings of historical interest be "ripped apart." Many buildings are listed and by a careful policy of controlled development Kirklees makes every effort to preserve the town's architectural heritage, while at the same time meeting today's needs of business and commerce.

Like Mr Wainwright, I wonder why Mr Amery chose to make such unfair comments and I can only assume that he visited Huddersfield town centre at 2 am on a foggy Sunday morning.

Norman Daley,
Town Hall, Ramsden Street,
Huddersfield.

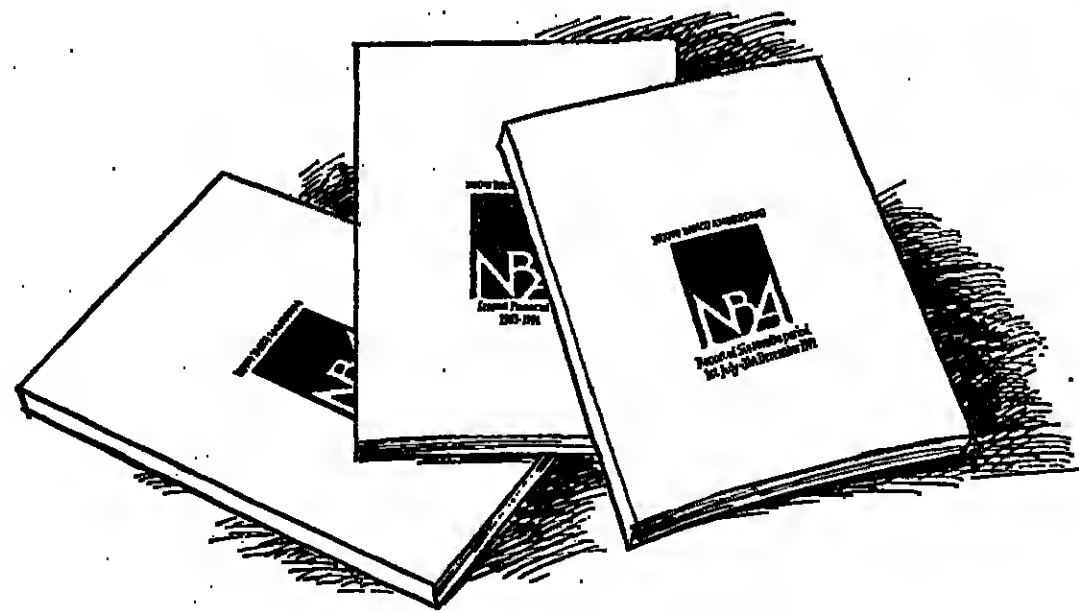
Software piracy

From Mr J. Morris

Sir,—Your item "Software piracy epidemic" (April 18) reporting a recent case is dangerously misleading. Since the Copyright Act 1956 came into force, computer programs have been protected principally under section 2 of the Act as literary works.

The present Copyright Computer Software Amendment Bill does not seek to alter the existing legal position but merely to give it statutory recognition.

John R. Morris,
Legal Department,
National Computing Centre,
Oxford Road,
Manchester.



Our third volume is now written.

Report of Six-Months period.

In order to bring our accounting year into line with other Italian banks, our third financial report covers the six-months up to 31st December 1984.

Of great significance is the fact that, after having made substantial provisions for depreciation, bad-debts and reserves, our net profits have further improved.

An English version of this latest report is now available. We will be pleased to send it to you on request.

Our restructuring programme.

Nuovo Banco Ambrosiano is now a better and more efficient bank. This is the result of three key moves: the installation of the most modern automation systems; the centralization of staff and data-processing services at our new facility on the outskirts of Milan; and the concentration of our attention on the most promising areas of Northern and Central Italy, by the opening of new branches and the relocation of existing ones.

In consequence, our productivity is increasing at a very satisfactory pace, and we are now recognized in Italy as an important factor on the banking scene.

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Merrill Lynch triples earnings to \$55m in buoyant trading

By William Hall in New York

MERRILL LYNCH, the world's biggest brokerage firm which has been struggling to control its rapidly rising expenses, nearly tripled its first-quarter net income to \$55.6m. The company's revenues rose 14 per cent to \$1.8bn for the 13 weeks to end-March, while its total expenses grew by 8 per cent. Merrill says that the improvement was due largely to higher stock market volume, favourable interest rate movements and close control of expenses. The company, whose return on equity dropped to 5 per cent in 1984, says that the first-quarter results demonstrate that its tight cost containment and basic restructuring efforts are taking hold. However, the work has only started, and Merrill says that it is "dedicated to continued unrelenting efforts to control expenses while laying the foundation for healthy growth."

Despite the sharp jump in fully diluted earnings per share from 21 cents to 58 cents, the company announced an unchanged quarterly dividend of 20 cents a share, payable on May 22 to stockholders of record as of May 3.

Merrill's commission revenues were the highest since the second quarter of 1983, and its principal transaction revenues were the high-

est since the first quarter of 1983. Mr Roger Bick, who is scheduled to step down as chairman in July, and Mr William Schreyer, the group's chief executive, said that the most important and certainly the encouraging trend was shown on the expense side. The group's fixed and semi-fixed expenses grew by only 2 per cent over the year. If occupancy expenses are omitted, then expenses are 4 per cent down on the 1984 level. The two executives say that the company is on the right track in its cost control efforts.

Merrill's commission revenues rose 8 per cent to \$378m, reflecting strong stock market activity and buoyant mutual fund sales. However, activity in commodities and money markets instruments fell. Revenues from principal transactions rose 50 per cent to \$212m as fixed income trading benefited from lower interest rates and effective positioning.

The group's investment banking revenues rose 23 per cent to \$118m and real estate revenues rose 15 per cent to \$125m. Lower mortgage rates stimulated home sales. A sharp rise in funds under management from \$39bn to \$51bn led to a substantial increase in fee income in this area.

Atlantic Richfield hit by reduced margins

By Our Financial Staff

ATLANTIC Richfield, the sixth biggest U.S. oil company, has reported a further fall in quarterly net income because of lower oil product margins, higher expenses and falling chemical sales volumes and margins. First-quarter net earnings fell 11 per cent from \$395m to \$353m, or \$1.47. The 1984 figures include a \$17m loss in the company's metal operations, which have since been written off.

Sales in the latest quarter slipped from \$8.5bn a year ago to \$5.8bn. For all 1984, the company reported net profits of \$567m, primarily reflecting the \$785m write-off, on sales of \$24.6bn.

Arco said after-tax earnings from worldwide oil and gas exploration and production were \$339m in the latest first quarter, down \$35m from the 1984 period. Worldwide production of crude oil and natural gas liquids averaged 723,400 barrels a day in the first quarter, against 710,800 a year earlier.

Earnings from chemical operations were affected by the strong U.S. dollar, which depressed export volumes and increased imports.

Meanwhile Ashland Oil, the big Kentucky-based independent oil refiner, reported earnings for the second quarter ended March 31 of \$14.1m or 22 cents a share, compared with a profit of \$5m.

Phibro Salomon advances to record

By Terry Dodsworth in New York

PHIBRO-SALOMON, the U.S. investment bank and commodity trading house, announced an 18 per cent jump in earnings from \$125m to a record \$141m in the first quarter of 1985. Earnings per share rose by 14.5 per cent from 94 cents to 96 cents, while revenues fell from \$8.65bn to \$6.17bn.

Quarterly pre-tax profits rose even more strongly from \$176m to \$238m. But the effective tax rate also rose by 9 per cent against 1984 because a larger share of consolidated earnings came from U.S. operations, pushing the tax bill up from \$55m to \$97m.

On a pre-tax basis, profits in the securities market-making, underwriting and research segments of the company's business rose by 30 per cent from \$124m to \$174m. Pre-tax profits were also buoyant in Phibro Brothers, the commodities division of the group, rising by 33 per cent from \$76m in 1984 to \$101m.

Skanska down 44% in full year

By Kevin Dore in Stockholm

SKANSKA, the leading Swedish construction and investment group, suffered a big drop in profits last year with a fall of 44 per cent to SKr 918m (\$106m) from SKr 1,638m in 1983. Invoiced sales rose by 21 per cent to SKr 14.7bn from SKr 12.16bn in 1983, but there was a substantial drop in the volume of contracts credited to income which helped to depress profits.

The value of contracts credited to income dropped to SKr 11.7m from SKr 14.6m the year earlier. Of total sales, some SKr 3.3bn was derived from foreign contracts compared with SKr 2.7bn in 1983.

An unchanged dividend of SKr 2 per share is to be paid in 1984. Earnings per share dropped to SKr 7.50 from SKr 12.50 in 1983.

Data General profits fall 36% in second quarter

By Our Foreign and Financial Staff

DATA GENERAL, the major U.S. minicomputer group, yesterday reported a 36 per cent drop in second-quarter profits and announced it is to close down U.S. manufacturing operations during the Memorial Day and Fourth of July weeks this year.

The profits drop, which the company had warned Wall Street to expect as long ago as February, comes amid a general earnings downturn in the computer industry, headed by IBM. Digital Equipment (DEC), the world's second biggest computer manufacturer, has also reported a 10 per cent earnings decline in the third quarter, despite an 18 per cent gain in revenues.

Massachusetts-based Data General posted net profits of \$9.1m or 34 cents a share in the second quarter ended March 30, against \$14.2m or 55 cents a share a year earlier. In the first quarter of the latest year, Data General made net profits of \$23m, so the six-month profits total is \$32.1m or \$1.21 a share, against \$24.3m or 95 cents.

Revenues rose from \$273.9m to \$320.2m in the latest quarter, and from \$514.2m to \$653.8m for the first six months.

Mr Edson de Castro, president, said several economic factors were contributing to a slackening in capital goods spending and weakened order rates, although no single factor stood out.

He warned that third quarter earnings may not exceed those of the second quarter, and earnings for the year may not exceed the \$78.8m recorded in the year ended September 30.

Digital Equipment said third-

quarter earnings fell to \$81.88m, or \$1.52 a share, compared with \$101.85m, or \$1.77 a year earlier on revenues which grew to \$1.69bn from \$1.43bn. The earnings decline which ends a run of five consecutive quarterly year-on-year earnings gains - underlines the current downturn in the U.S. computer industry.

Mr Kenneth Olson, DEC's president, noted that the revenue growth exceeded most other companies in the computer industry. But he added that sales in the U.S. reflected cutbacks in capital spending in many industries.

Despite the third-quarter earnings decline, the latest results lifted the Maynard, Massachusetts, group's nine-month earnings to \$346.2m, or \$5.77 a share.

Xerox sells publishing units in reorganisation

By Paul Taylor in New York

XEROX, the diversified U.S. office products group, took another major step towards reorganising its business operations by announcing the planned sale of its publishing companies for over \$500m.

The group, which is expected to launch a new corporate strategy and a raft of new products - including an agreement under which it will sell a personal computer made by Olivetti of Italy - later this month, said it has reached preliminary agreements with four prospective purchasers of its six publishing companies.

Under the terms of the agreements, which are expected to be completed late next month or in early June:

- International Thomson Organisation, the Canadian publishing group, will acquire R. R. Bowker of New York. University Microfilms International of Ann Arbor, Michigan, and Autex Systems Massachusetts, through its U.S. holding company;
- Gulf and Western will acquire Ginn and Co of Lexington, Massachusetts. Ginn, founded in 1887, was acquired by Xerox in 1983;
- Times Mirror will pay in "excess of \$100m" for Xerox Learning Systems (XLS);
- Field Corp of Chicago will acquire Xerox educational publications.

Warner lower but underlying trend improves

By Our New York Correspondent

WARNER Communications, the U.S. film and publishing conglomerate, announced first-quarter net earnings of \$21.5m, or 31 cents a share, against \$30.9m, or 44 cents, in the year-ago period. Revenues increased by 18 per cent from \$471.7m to \$562.9m.

The figures mask the underlying uptrend in Warner's performance, which was helped last year by extraordinary gains on businesses which have been discontinued. Profits on these discontinued operations amounted to \$23.7m in 1984, leaving the net figure for the continuing operations of \$17.8m, or 10 cents a share.

Gains on the discontinued activities included \$66.8m on the sale of the cosmetics and fragrance business, which more than offset a loss of \$42.8m on other discontinued activities.

Mr Stephen Ross, chairman, said that operating income in the record division achieved an all-time first-quarter high in 1985.

Asset sales in the first quarter of this year had enabled the group to reduce total debt to approximately \$630m.

Alcan suffers sharp decline

By Robert Gibbins in Montreal

NORTH AMERICAN aluminium ingot prices, kept low by the high U.S. dollar, brought a sharp decline in earnings of Alcan Aluminium in the first quarter. However, the European operations, including the UK, continued to benefit from the dollar's strength.

Alcan has begun a major rationalisation programme to reduce overheads in North America and will take a special charge later this year.

First-quarter net income was U.S.\$30m, or 30 cents a share, on revenues of \$1.41bn.

Retail operations hold back Sears Roebuck's growth

By Terry Byland in New York

SEARS ROEBUCK, the world's largest retailer, lifted first quarter net earnings by 4.4 per cent to \$223.3m after a 4.8 per cent growth in revenue to \$8.77bn.

Improved results from the group's financial services and real estate divisions helped offset a downturn in merchandise operations. Mr Edward Telling, the chairman, said the results were achieved "despite a slowdown in the economy and a highly competitive marketplace."

The merchandising divisions, which account for nearly 70 per cent of group sales through the chain of retail stores, catalogue and telephone sales operations, reported a fall in earnings from \$1.6m to \$15.5m, despite a gain of 0.8 per cent to \$5.50bn in sales.

But on the financial services side, there was a substantial recovery at Dean Witter financial services, as revenues were boosted by the renewed surge in securities trading on Wall Street during the quarter. Net income at Dean Witter jumped from \$1.5m to \$4.1m, on revenue of \$658.7m against \$577.4m.

The Coldwell Banker real estate group also did well, lifting income by 29 per cent to \$31.5m due largely to sales of shopping centres. Revenues advanced from \$170.4m to \$184.2m.

At Allstate Insurance, income showed a modest gain from \$143.3m to \$144.3m but was held back by poor underwriting results. Investment income advanced and the strong stock market brought capital gains.

Price cutting adds to Goodyear's difficulties

By Our Financial Staff

GOODYEAR TIRE and Rubber, the world's largest tyre producer, suffered a 22.4 per cent drop in its first-quarter net earnings to \$88.7m from \$111.8m - a decline from \$1.06 to 81 cents a share. Sales were down 1.8 per cent to \$2.48bn from \$2.52bn.

The company was hit hard by a decline in the U.S. replacement tyre market, compounded by price cutting "by some competitors attempting to gain market share," according to Mr Robert Mercer, chairman.

In addition, Goodyear's Valley Field, Quebec, plant was hit by a strike, while the strength of the dollar hit profits from foreign subsidiaries as translated into dollar terms and gave foreign competitors a price advantage in the U.S. market.

Foreign profits fell about 40 per cent as a result of the Canadian strike and the dollar's strength, to \$11.8m, on foreign sales of \$773.7m against \$793.4m in the same quarter last year.

U.S. profits fell 18.4 per cent to \$74.9m from \$91.8m on sales down slightly to \$1.69bn from \$1.72bn.

An additional factor making Goodyear's profit performance in the first quarter of 1985 look less strong than a year earlier was a \$13.8m tax credit in the first quarter of 1984. Extraordinary gains from disposals at \$5.7m in the first quarter of 1985, were only slightly up on the \$5.5m gained a year earlier.

Sandoz expects improvement

By John Wicks in Basle

SANDOZ, the Swiss chemical company, expects further good results this year, although the rate of growth may not match the figure achieved in 1984, according to Dr Marc Moret, the group's management chairman.

Earnings rose 28 per cent to SwFr 411m (\$165.7m) after a 13.6 per cent increase in turnover during 1984, and the board has proposed a higher dividend of SwFr 90. Dr Moret said 1985 "had got off to a good start".

Janet and John

This is Janet. This is John.

Come John, come. See Father's office. See how big it is. See the nice machine.

Come John. Press the button. Press the button, John. See it light up. See the nice pictures. See all the words.

I like the machine. Turn the knob. Look John. Another picture. Press the button. See how the copy comes.

See how quickly the pages go. They go very fast. Go fast, machine.

Good-bye, machine! Good-bye!

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INTERNATIONAL COMPANIES and FINANCE

Peter Bruce in Bonn reports on the end of a corporate dog-fight

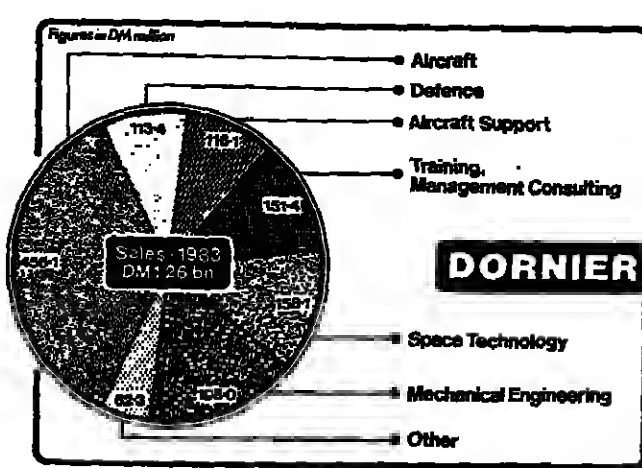
The Dorniers succumb to Daimler

EVEN AT THE END, the Dornier family, owners of West Germany's second largest aerospace company, proved themselves a stubborn and divided lot. It took more than 20 hours of negotiation, starting early on Monday morning in Stuttgart, to prise the company away from the family to see it into the hands of another German manufacturing legend, Daimler-Benz.

Yet Herr Lothar Spaeth, premier of Baden-Württemberg, whose fears that the ruling group of brothers were on the brink of moving large parts of the company over to next-door Bavaria led him to ask Stuttgart-based Daimler to bid, cannot be sure he has finally won.

Yesterday's agreement still has to go before the traditionally strict Cartel authorities in Berlin, but even more threatening is the fact that one of the brothers, Claudius (the eldest son of founder Claude Dornier) has not given his blessing to the Daimler takeover. It is an irony that Claudius has long wanted to sell his stake to finance a private aircraft venture but he has been interested only in selling within the family.

Probably his father's most devoted son, Claudius has been insisting that the late Claude's will be followed to the letter,



particularly where it calls on the brothers to keep Dornier in the family as long as possible. Claudius has first refusal on any shares sold by his brothers and Herr Spaeth and Daimler have given him until May 15 to buy them. He does not have the money, but given the emnity which exists between him and the brother currently in control (Justus), who has agreed to sell, Claudius may just try to find someone to back him.

Mannesmann, for instance, made it clear last week they were very keen to buy Dornier. Mannesmann's weak connec-

tions with Stuttgart probably counted against it.

After the Stuttgart talks, in fact, Claudius now owns more of the company than he did on Sunday. To make the talks simpler Herr Spaeth had to get the lawyer holding some 28 per cent of the stock following the death last year of the founder's widow, Anna, to give this out in equal shares to the brothers. Peter Dornier then sold his extended holding to the other five in return for a 100 per cent stake in the Dornier knitting machine business which

he has been managing.

Justus, Ellen (widow of one brother) and Christoph then sold their 20 per cent shares to Daimler and Silving sold 8 per cent of his stock to Daimler and 4 per cent to Baden-Württemberg, leaving him still holding 8 per cent. Herr Spaeth said the state had paid DM 23m (\$7.6m) for Silving's 4 per cent, which probably means the entire 72 per cent in Dornier has gone for around DM 400m.

Assuming Claudius does allow the sale to go through unimpeded, what has Daimler-Benz bought? Claude Dornier founded the company just over 50 years ago, having done his design apprenticeship with Graf von Zeppelin during the First World War. Headquartered today at Friedrichshafen on the Bodensee (Lake Constance), the group made its mark during the war supplying the Luftwaffe with heavy fighters and bombers, but now does less than 40 per cent of its business in aircraft.

In 1983 the group made net profits of DM 26m on a turnover of DM 1,260m. Last year's profits have not been made public but turnover is reckoned to have grown to DM 1,500m. That would represent a sizeable 3.75 per cent of Daimler's present sales.

The company is also in



Herr Lothar Spaeth, Baden-Württemberg's premier, cannot be sure

the throes of a minor revolution. During the seventies, it made most of its money building the highly successful Alpha-jet, along with Dassault of France, as a trainer for the Luftwaffe. Those orders have dried up, leaving, nevertheless, lucrative service and maintenance contracts in their wake.

It was the establishment in 1963 of Dornier System that makes the group exciting today. System was first used to do little more than design instruments for Dornier aircraft, but it is rapidly becoming one of West Germany's most important centres for aircraft and spacecraft technology, and is heavily involved in a wide range of missile programmes, particularly in guidance systems.

Banque Indosuez attains 34% growth for year

BY DAVID HOUSEGO IN PARIS

BANQUE INDOSUEZ, the French banking group, increased consolidated profits last year by 34 per cent to FF 503.3m (\$99.8m) with the bank's own earnings rising by 20 per cent to FF 216m.

The improvement in net earnings, which is well ahead of the average profit growth for French banks, was broadly based. The group has been one of the most active among French banking groups in adopting itself to international changes in financial markets.

M. Antoine Jeancourt-Gallignani, the managing director, said earnings had been boosted by the strength of the dollar and by the drop in interest rates in France. Of total earnings 55 per cent came from abroad, though the contribution of the group's Saudi interests—accounting for about 25 per

cent of group profits through Al Saudi al Franst Bank—registered a small decline.

The group had an advantage over its competitors in the French domestic market as interest rates fell because it raises a high proportion of its funds on the money market. The main deposit-taking banks have had their margins squeezed by the decline in rates because of the high costs in France of administering deposit accounts.

The sharp increase in profits was after making FF 3.3bn provisions—up 27 per cent from 1983 and slightly higher than the average level among French banks.

The total balance sheet rose by 17 per cent to FF 248.6bn. At a constant dollar exchange rate the increase would have been 7 per cent.

Consolidated loans rose by 20

per cent to FF 105.9bn compared with an increase of 28 per cent in 1983—a slow-down due to the group's French and Middle East activities.

After raising FF 1.5bn last year to strengthen its capital base, the group said yesterday that it had no plans for cash calls this year. The bank's capital-to-loan ratio is one of the strongest among French banks.

Exclusive of interest payments on titres participatifs—the profits-related bonds which nationalised institutions can issue to strengthen their capital base—profits rose by 49 per cent to FF 561.5m. Though this is the figure that will appear in the published accounts, the bank considers the 34 per cent increase a more accurate indicator of its performance.

Spanish contractor 80% ahead

BY DAVID WHITE IN MADRID

DRAGADOS y Construcciones, the leading Spanish building contractor, reports an 80 per cent improvement in net profit to Pta 1,44bn (\$8.6m) last year, thanks to a sharp increase in its export business.

However, Sr Antonio Duran, the chairman, expressed concern about delays in payment on some overseas contracts. This was recently the case in Algeria, Dragados's main foreign client. It also currently

affects Spanish companies operating in Libya.

Libya's delay in paying Spanish contractors is cited as the main reason behind a decision by another major civil engineering group, Constructora Internacional, to file for temporary receivership.

Dragados, in which Banco Central has an important share, is putting Pta 682m of its profit into reserves, up from Pta 40m last year, and maintain-

ing its dividend at 12 per cent.

Turnover last year rose 8 per cent to Pta 148.8bn, with a 5 per cent drop on the depressed Spanish market to Pta 91.3bn.

This was offset by a 38 per cent increase in turnover abroad to Pta 57.5bn. Half of this—Pta 28.3bn—came from Algeria, where the company, as part of a Swiss-Spanish consortium, expects shortly to finalise a water system contract for the city of Oran.

Two German chemical groups to pay more

BY JOHN DAVIES IN FRANKFURT

TWO OF West Germany's big three chemical groups have substantially increased their dividends after the sharp rise in their profits last year.

BASF and Hoechst are paying DM 9 dividend per share, as widely expected, compared with DM 7 on their 1983 results. Hoechst disclosed yesterday that its world-wide pre-tax profit rose 18 per cent to DM 2,650m (\$537m) last year, while BASF has already put its group pre-tax earnings at DM 2,520m, up 50.3 per cent.

Bayer, the other member of West Germany's "big three," is expected to announce its dividend today. Its world-wide pre-tax profits rose 34 per cent to DM 2,90m last year.

All three companies have been benefiting strongly from economic recovery at home and

abroad, especially in the U.S., while the strong dollar has increased their U.S. earnings in terms of D-marks.

The surge in profits also reflects the success of all three groups in dealing with losses or excess capacity in problem areas in recent years.

After tax, Hoechst's world-wide net profit reached DM 1,350m last year, compared with DM 900m in 1983. The parent company's net profit increased to DM 591m, after DM 437.5m.

BASF showed a 73 per cent rise in its group net profit to DM 895.4m. Bayer has not yet disclosed its net earnings.

Hoechst confirmed that Dr Wolfgang Hilger would take over the chief executive's job from Professor Rolf Sammet in June.

Philips chief to step down

DR WISSE DEKKER, president

and chairman of Philips the Dutch electronics group, is to step down in April next year. He will be succeeded by Mr Cor van der Klugt, his deputy, Jason Crisp writes.

The surprise announcement was made yesterday at Philips annual meeting in Eindhoven. Dr Dekker, 61 next Friday, has been president of Philips' board of management—equivalent to chief executive—for four years.

He will become chairman of Philips' supervisory board, succeeding Mr Hanke van Riemsdijk who will be 75.

Mr van der Klugt, 60, has been a member of Philips' board of management since 1979 and has been vice-president and vice-chairman since 1982. He joined the company in 1950 and spent a number of years in South America and was chief executive in Uruguay and then Brazil.

L'Oreal raises income and increases dividend

BY DAVID MARSH IN PARIS

L'OREAL, the French hair products and cosmetics group, registered net profits of FF 729m (\$79m) last year, up 9.9 per cent from the FF 663m of 1983. Sales rose by 16.5 per cent to FF 15.8bn.

The group is paying a dividend of a net FF 28.15, up 4.5 per cent from 1983, in line with government recommendations.

The profit increase corresponded to provisional forecasts made earlier in the year, and represented a slowdown from the 20.5 per cent rise in 1983. Last year 60 per cent of group sales were outside France, against 57 per cent in 1983.

One of the reasons for the slowdown was heavy research spending, especially at the pharmaceutical subsidiary Syn-

thelabo, where expenditure rose 24 per cent to FF 463m. Synthelabo's sales also rose much less strongly than the rest of the group—up 7 per cent to FF 2.9bn.

L'Oreal said French pharmaceutical price controls, as well as restructuring at the Telecommunications biomedical division and the cost of setting up new subsidiaries in Britain and the Netherlands, all weighed on Synthelabo's profits.

Mainstream cosmetic and hair business achieved 19 per cent sales growth. Hair product sales came to FF 8.1bn (82 per cent outside France) with perfumes and beauty products registering turnover of FF 4.2bn (76 per cent outside France).

Pechiney buys U.S. can plant

BY PAUL BETTS IN PARIS

PECHINEY, the French nationalised aluminium group, is making a return into the U.S. aluminium market with the acquisition of an aluminium can manufacturing plant in Connecticut from International Container Corporation.

The French group sold its aluminium manufacturing operations in the U.S. in 1983 for \$235m to Alumax in a major redeployment of its North American aluminium assets.

After selling the U.S. operations, Pechiney reinvested in the construction of a major aluminium smelter in Canada to take advantage of lower cost electricity supplies.

Although shedding its

aluminium assets in the U.S., Pechiney retained its U.S. Howmet Turbine Components subsidiary which makes aerospace engine components. Pechiney said then it planned to reinvest the proceeds from the disposal not only in Canada but eventually in high technology ventures in the U.S.

The decision to buy the aluminium can plant marks a shift in this original strategy and a direct return to the U.S. aluminium market. The French company declined to say how much it would pay International Container.

Pechiney has in the past few years been building up its presence in the aluminium packaging

market through its subsidiary Cebal, which owns plants in France, West Germany and Italy.

Cebal reported sales of FF 3.3bn last year or a little less than 10 per cent of Pechiney group sales of FF 35bn in 1984.

Pernod, the French spirits giant, sold drinks group which earlier this year reported lower operating profits, is stepping up its dividend for 1984.

Net profits dipped from FF 430m to FF 396m (\$43m) last year on sales of FF 6.6bn, against FF 5.73bn. But the dividend is going up from FF 27 a share to FF 28.20.

This announcement appears as a matter of record only.



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April, 1985

KabiVitrum drug move angers Fermenta

BY KEVIN DONE, NORDIC CORRESPONDENT IN STOCKHOLM

KABIVITRUM, the Swedish pharmaceuticals group and the world's leading producer of growth hormone, has had to withdraw Crescorm, its most profitable product, from the world market after suggestions in the U.S. that the drug can lead to a fatal brain disease.

The withdrawal, which follows talks last Friday with the U.S. Food and Drug Administration, came only 24 hours before negotiations were due to be completed for the takeover of the state-owned KabiVitrum group, by Fermenta, the fast growing Swedish producer of fine chemicals and pharmaceutical intermediates.

Crescorm, used in the treatment of dwarfism, accounted for more than 13 per cent of KabiVitrum's sales last year, some SKr 1.5bn (\$171) and for close to 60 per cent of its profits of SKr 180m.

The withdrawal of the drug would lead to the loss of SKr 150m-200m in budgeted sales this year, and would cut profits for 1985, by at least SKr 50m to SKr 120m-130m from forecasts of around SKr 180m.

Fermenta has been negotiating with Procordia, the Swedish state holding company, for the takeover of KabiVitrum for more than two months, but it learned of the problems with

Crescorm less than two weeks ago. "I am very angry," said Mr Refaat El-Sayed, Fermenta's ageing director, yesterday. The Fermentat board was due to meet this morning to consider the final details of the takeover. SKr 180m.

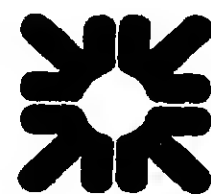
Mr El-Sayed thought the deal would still go ahead with the 100 per cent takeover of KabiVitrum by Fermenta. The deal could be part cash, part shares, with the state taking a minority holding in Fermenta. Doubts about the safety of Crescorm, which has 50 to 60 per cent of the world market for growth hormones, have

arisen after the deaths in the U.S. of three people aged 21 to 34 of the very rare Creutzfeldt-Jakobs Disease, which attacks the central nervous system.

All three have been treated for many years with a growth hormone produced by the U.S. National Pituitary Agency. The production technique is similar to that used by KabiVitrum.

The Swedish company has been working intensively on producing a comparable biosynthetic product, using recombinant DNA but this is unlikely to be approved for general use for another one or two years.

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The Royal Bank of Scotland Group plc

(Incorporated in Scotland under the Companies Acts, 1948 to 1967, registered number 45551)

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of which £100,000,000 is being issued as the Initial Tranche

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Application has been made to the Council of The Stock Exchange of the United Kingdom and the Republic of Ireland for the Notes to be admitted to the Official List. Interest on the Notes is payable quarterly in arrears, the first such payment being due on 2nd August, 1985. Listing Particulars relating to The Royal Bank of Scotland Group plc and the Notes are available in the External Statistical Service and may be obtained during usual business hours up to and including 26th April, 1985 from the Company Announcements Office of The Stock Exchange and up to and including 8th May, 1985 from:—

Laing & Crutchfield,
Piercy House,
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London EC2R 7BE

The Royal Bank of Scotland Group plc,
36 St. Andrew Square,
Edinburgh EH2 2YD

Charterhouse Japhet plc,
1 Paternoster Row,
St. Paul's,
London EC4M 7DH

24th April, 1985

INTL. COMPANIES & FINANCE

Group earnings at Honda reach a record Y128bn

BY ROBERT COTTRELL IN TOKYO

HONDA MOTOR Company, the Japanese car and motorcycle manufacturer, achieved record group net profits in the year to February of Y128.5bn (\$495m), an increase of 34.5 per cent over the Y95.5bn reported for 1983-84. It said the improved profits reflected a better ratio of sales to expenses.

Group sales rose by 11.7 per cent to Y2,652bn from Y2,374bn. Of total sales, 26.5 per cent were made in the Japanese market.

Car sales in 1984-85 accounted for Y1,620bn, or 61.1 per cent of the group total, and showed an increase of 20.3 per cent over 1983-84. In unit terms, 387,000 cars were sold in Japan, a fall of 4.2 per cent, but sales overseas rose by 20.5 per cent to 885,000.

Unit sales of motorcycles fell by 7.2 per cent to 2,954m, worth Y423bn. Japanese unit sales fell by 14.7 per cent to 1,006m, but overseas sales were more resilient, falling by just 2.9 per cent to 1,948m units.

Sales of power products rose by 35.1 per cent to Y235bn, while sales of parts and other revenues increased by 5.7 per cent to Y374bn.

Honda's announcement also included its parent company annual accounts, and 1984-85 fourth-quarter group figures. Fourth-quarter group sales were 6.8 per cent higher year-on-year at Y700bn, while net income rose by 27 per cent to Y37.6bn. Unit sales of cars increased by 7.7 per cent to 337,000, representing a 15.7 per cent rise in

value terms to Y450bn. Motorcycle sales rose by 6.5 per cent to 765,000 units but in value terms fell by 24.6 per cent to Y90bn.

On a parent-company only basis, Honda earned Y32.7bn during 1984-85, a 33.1 per cent increase, while sales rose by 4.5 per cent to Y1,930bn. A final dividend of Y6 per share maintains total payments for the year at Y11.50, though the amount paid in the prior year included a special 35th anniversary bonus of Y1.

In a forecast of parent company performance during the current financial year, Honda said it expects net sales of Y2,200bn and net income of Y40bn, and intends to pay a dividend total of Y12.

Adsteam in A\$60m bid for control of Wormald

By Lachlan Drummond in Sydney

THE ACQUISITIVE Adelaide Steamship group has bid A\$60.4m (US\$35m) in an effort to lift its holding in Wormald International, the fire protection and detection company, from almost 20 per cent to a controlling 44 per cent.

Adsteam is bidding A\$3.59 each for the additional 17m shares, in line with the market, and the same price paid last week to buy out the Bond Corporation's stake of almost 10 per cent in Wormald.

The deal values Wormald's ordinary share capital at A\$250m, although diluted for convertible notes capitalises the company at A\$284m. Wormald's directors have advised shareholders to take no action and in recent days have made it clear they are opposed to such partial takeover offers where a full premium for control is not paid.

The company has a dominant 50 per cent share of the Australian fire protection and detection market and has significant international interests in this field as well as in pumps and valves through its ownership of the UK-based Mather and Platt. It also owns Ansl, which has about 5 per cent of the U.S. fire protection market.

With one of its main international markets, the oil production and refining industry, in decline in recent years, Wormald has been in retreat since its net earnings peaked at A\$28m in 1981-82.

Recent interim earnings up 12 per cent to A\$11.5m support brokers' forecasts of an improvement for the year to June from A\$21m to A\$25m.

The Adsteam offer price was over-bid by five cents in the stock market at the close of trading yesterday, underlining the feeling that something closer to A\$4 a share will be required to win Wormald.

Bidding through a company jointly owned by the Adelaide Steamship group and one of its satellites, DJ's Properties, Adsteam has paid around A\$46m for its existing stake.

The company has expanded in the past decade from a staid tug operator to a major force in the Australian food processing, building products, and retailing industries.

Japanese store groups lift profits

By Our Financial Staff

SOLID IMPROVEMENTS in profitability have been reported by leading Japanese retailers, founded on a sustained growth in domestic consumer spending and the benefits of launching new outlets.

Ito-Yokado, a leading supermarket group, has announced a 20.5 per cent boost in consolidated net earnings to Y25.64bn (\$103m) for the year to February, on sales 6.2 per cent ahead at Y1,057bn. Pre-tax profits advanced by 23.7 per cent to Y72.66bn.

Parent company taxable profits rose 21.4 per cent to Y38.67bn while the net result was 18.9 per cent better at Y17.62bn. Ito-Yokado has maintained its dividend at Y19 per share and has forecast group net profits for the current year of Y29bn.

Among Japan's department store groups, Daimaru has reported a return to the black with parent company net earnings of Y14m for the year against a loss of Y859m. Sales rose by 4.6 per cent to Y489.55bn — overtaking its rival Takashimaya, where turnover reached Y486.34bn, for the first time in four years. Net earnings there were Y2.26bn, up 7.4 per cent.

Heavy equipment division drags UMW into the red

BY WONG SULONG IN KUALA LUMPUR

UNITED MOTOR WORKS, the Malaysian heavy equipment, engineering, and car distribution group, slid into an operating loss of 16.9m ringgit (\$7m) last year, compared with 1983 profits of 16m ringgit.

Turnover fell marginally to 1,135m ringgit and there was a net loss after tax and minority interests of 32.6m ringgit compared with net profits of 5.7m ringgit.

UMW said the losses were incurred by the heavy equipment and tractors division, which has experienced three successive years of depressed trading conditions largely due to a slowdown in the timber logging and construction industries.

The division, which is engaged in a price war to maintain its market share, suffered a loss of 34.5m ringgit on turnover of 394m ringgit.

The company said it was taking further action to cut costs, reduce stocks, and collect debts, but added: "A turnaround is not expected until mid-1986." The car division, which distributes Toyota cars, increased pre-tax profits from 12.4m to 18.9m ringgit on turnover up by 11 per cent to 757m ringgit.

UMW shares have been steadily falling on the Kuala Lumpur Stock Exchange. At the end of 1983, the shares were trading above three ringgit each, giving the group a market capitalisation of around 450m ringgit. Yesterday, the price was 1.14 ringgit, below the net tangible asset backing of 1.4 ringgit, and capitalising UMW at only 165m ringgit.

The company has a 35 per cent stake in EON, the sole distributor of the Malaysian national car, which is due on the streets this September.

New Straits Times, Malaysia's biggest newspaper publishing chain, has reported a 10 per cent rise in pre-tax profits to 27.4m ringgit for the six months to February on turnover up by 11 per cent to 93.8m ringgit. Profits after tax were 12 per cent higher at 12.4m ringgit.

The better results were attributed to increased advertising revenue and stable newspaper costs. The company, which publishes the New Straits Times, the country's biggest English-language daily, said earnings for the current six months were expected to be similar to those achieved in the previous second half.

A 12 per cent interim dividend is being paid on increased capital of 68.8m ringgit.

All of these securities have been sold. This announcement appears as a matter of record only.

April, 1955



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April 24, 1985, London
By: Citibank, N.A. (CSI Dept.), Agent Bank

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NEW ISSUE

20th February, 1985

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April, 1985



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(Incorporated with limited liability in the State of Delaware in the United States of America)

Authorized
50,000,000

Shares of Common Stock of U.S. \$0.01 par value

Issued and reserved
for issue at
1st April, 1985
15,534,758

*including 2,058,000 shares reserved for issue

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The Company had consolidated total assets of U.S.\$7,595 million and stockholders' equity of U.S.\$313.6 million at 31st December, 1984; net income for the year ending 31st December, 1984 was U.S.\$68.7 million.

Application has been made to the Council of The Stock Exchange for the admission to the Official List of all of the 15,534,758 shares of Common Stock of the Company issued and reserved for issue.

Listing Particulars relating to the Company are available in the Exel Statistical Service. Copies of such particulars in book form may be obtained during usual business hours on any weekday (Saturdays and public holidays excepted) up to and including 26th April, 1985 from the Company Announcements Office, Quotations Department, PO Box 119, The Stock Exchange, London EC2P 2BT and up to and including 8th May, 1985 from the principal executive office of the Company and:

Credit Suisse First Boston Limited
22 Bishopsgate, London EC2N 4BQ

Laing & Cruickshank
Piercy House,
7 Cophall Avenue,
London EC2R 7BE

24th April, 1985

INTL. COMPANIES & FINANCE

Bernard Simon on a Francophone group's success in English Canada

Montreal bank makes it the Big Six

THE SELECT group of Canada's Big Five banks has begun to open its doors to a sixth member. Six banks participated in last month's Government-sponsored rescue of a small Edmonton bank, and many Toronto securities analysts now include six, rather than five, institutions in their reviews of the Canadian banking industry.

The newcomer is National Bank of Canada, the Montreal-based group that has drawn attention in the past three years by turning a loss into some of the most impressive financial results posted by any Canadian bank.

National Bank's share price has almost trebled since 1983, and Mr Michel Bélanger, its chairman, and former Montreal Stock Exchange president, is often mentioned as being perhaps the next Governor of the Bank of Canada.

The entry of a Francophone institution into the first league of Canadian banking has a wider significance, epitomising the growing respect being given outside Quebec to French Canadian business. Several other companies—the publishing group Quebecor is one example—have recently made their mark in English Canada.

National Bank's success also reflects the gradual recovery of Montreal's reputation as a stable financial and business centre, dispelling much of the uncertainty at the height of the drive for Quebec sovereignty in the 1970s.

That nervousness is still reflected in relatively low price/earnings multiples of many Quebec-based companies, including National Bank, quoted on the Toronto Stock Exchange. But Mr Roy Palmer, banking analyst at Alfred E. Bunting and Co., the securities firm, argues that "the prejudice against Quebec stocks is waning."

He predicts that investor acceptance of higher P/E ratios will push National Bank's share price still higher this year.

National Bank was formed in late 1979 by a merger between the Provincial Bank and Bank Canadian National. Problems stemming from the amalgamation of two disparate organisations, plus soaring interest rates, contributed to a sharp deterioration in performance, culminating in a C\$9m (U.S.\$6.7m) loss in 1982.

The bank cut its dividend, and was forced to reassure depositors through a series of

newspaper advertisements that their money was safe.

The transformation since then has been remarkable. Net income of C\$39.8m in the three months to January 31 was 50 per cent higher than a year earlier. National's assets grew by 15 per cent to C\$19.8bn at the end of January, and its return on assets of 0.80 per cent was exceeded only by Toronto-Dominion Bank among its larger competitors. The average first quarter return of the other five was 0.54 per cent.

While the Big Five posted an average return, on common shareholders' equity of 14.1 per cent, National's return stood at 18.9 per cent.

Both luck and skill have contributed to the turnaround. National Bank was too preoccupied with its problems in Quebec to follow other banks' stampede to Western Canada during the energy boom of the late 1970s and early 1980s. As a result, it has not been scarred by the consequent slump of western energy and property markets.

The value of its non-performing loans in Canada has dropped in the past five years from C\$194m to C\$157m.

At the same time, the bank has taken a firm action to strengthen its financial position. A 58 per cent increase in capital since November 1982 coupled with strict control on asset growth has boosted National's capital ratio from 4 per cent in 1982 to 6 per cent in the first three months to January.

Instead of lagging the Big Five, it is now ahead of most of them. National has closed more than a quarter of its branches in the past four years, and trimmed 3,500 from its workforce. Non-interest expenses have edged up by a modest 2.5 per cent in each of the past two years.

The bank still relies on Quebec for more than half its total business. Mr Bélanger sees no point in lowering this dependence by giving up market share in the province. He argues that such a move would play into the hands of competitors, including the powerful caisses populaires, the co-operative credit unions. Since last May, National has set up over two dozen "commercial lending centres" in Quebec to maintain its dominance of the small and medium corporate market there.

The bank hopes to broaden its base by rapid growth outside Quebec, especially in the

North American corporate market.

Fewer than a tenth of National's 580 branches are outside Quebec and Ontario. Although plans are afoot to double the number of offices in Ontario (there are now about 60), the cost of setting up an extensive branch network has dampened National's ambitions in the retail market. Instead, it has agreed to share automated teller machines with Bank of Nova Scotia, Canada's fourth largest bank, which has

attract customers. Mr Bélanger adds wryly that, as a French-speaking institution, the bank has easily resisted the temptation of sending foreigners into an unfamiliar market. In Canada, too, National prefers to play down its Francophone links, by appointing English-speakers to senior positions outside Quebec.

Outside North America, the bank is trying to expand its business in South-East Asia, but remains burdened by the heaviest exposure to Latin America among major Canadian banks. Analysts view the high level of Latin American loans as national's most vulnerable spot.

Loans to Latin American and Caribbean borrowers made up 9.7 per cent of the bank's assets on September 30, with about two-thirds to Brazil and Mexico. The sensitivity of its financial results to developments in this region was clearly illustrated in results for the first quarter of the 1985 fiscal year.

Collection of overdue interest from Argentina represented more than one-sixth of income during the quarter. Thanks largely to a return to normal status of some Argentine borrowings, non-performing loans dropped during the three months by 27 per cent to C\$16m.

National has raised its provisions on risky sovereign loans to 7.1 per cent of outstanding debts. Mr Bélanger says that provisions for its exposure to Latin America are adequate.

Some analysts also worry about the National Bank's management depth to cope with rapid expansion outside its home base of Quebec. Mr Bélanger says that the criticism was valid five years ago, but argues that—with the exception of the division specialising in small and medium commercial loans—the problem has been solved by recruitment outside the bank, partly from the U.S.

The truth of that assertion may be put to the test soon. Mr Bélanger, aged 55, says that he does not believe a chief executive should remain in office for more than seven to 10 years. He laughingly suggests, however, that in his own case, the starting date should be the formation of National Bank in 1979, rather than his appointment as president of the defunct Provincial Bank nine years ago.

According to Mr Bélanger, the bank is concentrating on two types of business in the U.S.: participation in loans to large (predominantly East Coast) companies, and a wide range of services to medium-sized firms as one of four or five regular bankers.

Although small in comparison with the big New York and California banks, National hopes that its foreign links and relatively large size in comparison with most Mid-West and Sunbelt institutions will

appoint Mr Mark Hedderwick as investment manager. Mr Hedderwick has been with the Lloyd's underwriting agency, Langtons for the past 12 years where he was investment director.

Mr A. N. Crow and Mr T. M. Gillingham have been added to the board of EFFORD PROPERTIES a subsidiary of Globe Investments Ltd. involved in agricultural land and forestry. Mr Crow is Edinburgh partner of John Clegg & Co. chartered surveyors and Mr Gillingham is financial controller of Globe.

RENISHAW METROLOGY has appointed Mr Jim Stevenson as managing director. Prior to joining Renishaw, he was managing director of Plessey Optoelectronics, making fibre optic and LED display products based on Gallium Arsenide semiconductor.

Mr C. G. M. Wishart has been appointed to the board of ABACO INVESTMENTS following completion of the acquisition by Abaco of mortgage brokers, John Charcol.

Mr John Hulton, head of the international division of HILL AND KNOWLTON (UK), has been appointed a director.

Mr John Turner is to be the next chairman of the BUILDING REGULATIONS ADVISORY COMMITTEE. Mr Turner is chairman and managing director of E. Turner and Sons, takes up his three-year appointment on August 1. He succeeds Mr David Llewellyn who has been chairman of the committee for the past eight years.

ADAM AND COMPANY has

APPOINTMENTS

Babcock-Bristol managing director

Mr John S. Singleton has been appointed managing director of BABCOCK-BRISTOL, the lead company in the control engineering activities of Babcock International. He was managing director of Kone Marryat Scott.

Mr Curtis Roberts, a main board director of PRITCHARD SERVICES GROUP, has taken responsibility for Pritchard's North American interests. Mr Roberts, who has been with the group for some 12 years, has extensive previous experience of managing the group's U.S. and Canadian businesses.

Mr C. E. C. Scott becomes senior partner of GOULDENS, following the retirement of J. E. B. Kae, who will remain a consultant.

Mr Peter Haworth has been appointed finance director of SEKERS INTERNATIONAL. He joined Sekers in September last year and was appointed company secretary in November.

Mr Brian Stairs has joined the board of HUNTING ASSOCIATED INDUSTRIES. He has also been appointed a director of Hunting Survey and Photographic. Mr Rowland Woodcock is relinquishing his appointment as company secretary of Hunting Associated Industries and will also be resigning his UK directorship on his appointment as financial director of Field Industries Africa in Johannesburg on July 1. Mr Steve Hilder, secretary, Hunting Engineering, succeeds Mr Woodcock as secretary of Hunting Associated Industries.

Mr Geoffrey Barrett, head of public affairs of NATIONAL WESTMINSTER BANK since 1983, has been appointed Lea Valley area director for August. He succeeds Mr Aubrey Pennington, who retires at the end of July.

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ADAM AND COMPANY has

CONTRACTS

£7.4m work for Edmund Nuttall

EDMUND NUTTALL has been awarded the £7.4m contract for the first stage of Trust Securities' Stockley Park Development at a site near Heathrow in the London Borough of Hillingdon. The project includes a commercial park and golf course. The Nuttall award comprises landscaping and replanting and involves approximately 4m cu metres of earthworks, including moving 2.5m cu metres of refuse on the section of the park to the east of the existing bypass, which is currently under construction by Nuttall for the London Borough of Hillingdon.

The 35 week contract includes the excavation of an 800,000 cu metre borrow pit, forming a noise barrier and site drainage. Special precautions will be taken when dealing with the refuse in order to minimise dust and odours. Anti-pollution measures also require the construction of slurry cut-off walls, the laying of leachate and pumping mains and the building of two pumping stations.

The Ministry of Defence has awarded an initial contract for the design and production of ships' data distribution equipment for the Type 23 frigate to the automation division of THORN EMI ELECTRONICS.

Total contract value is expected to be worth about £5m and covers supply of seven ship sets. Data derived from the frigate's sensors, including ship's heading, roll and pitch, wind and speed inputs, are translated into the format required by user equipment. Outputs to navigation and weapon systems are provided in synchro and digital form. Embedded terminals enable all data to be interfaced directly to the vessel's combat system and command and control data highways.

GEC TRANSPORTATION PROJECTS has a contract for electrical propulsion equipment for 25kV thyristor controlled press multiple unit trains for Taiwan. The order is for 11 sets with an option on a further three sets. The main contractor is Union Carriage and Wagon (Pty) Ltd which will build the vehicles at its Nigel Plant. Delivery of the trains is scheduled for the latter half of 1988.

Two contracts, for optical fibre telecommunications cables for British Telecom's trunk and junction networks have been awarded to BICC TELECOM. The order is for 24m. The first, worth £2.5m, represents 70 per cent of BT's current requirements for single-mode fibre cable in the trunk network. A total of 9400 fibre-kilometres of 8 and 12 fibre cable will be supplied over three months. The junction cables contract, valued at £1.5m, will provide 50 per cent of BT's requirements for the next six months. The 8400 fibre-kilometres of cable are of a low cost ribbon design.

Marathon Oil UK's order for electric cable for the £1,732m Brae-B North Sea Project has been awarded to BICC General. The £2.5m service contract includes provision for cable gland terminations from volvo high-voltage cables up to 13.8 kV, 600/1000 V cables for power control, as well as instrumentation and communication cables. Work starts this month and is expected to last two years.

BRENGREEN HOLDINGS has

the renewal of the contract for the Singapore Airport passenger terminal in Singapore valued at £3m over three years.

TILBURY'S latest batch of contracts is worth over £3.1m. The largest, worth just over £2m, is for the erection of 66 dwellings for the London Borough of Merton. Work is expected to take 18 months to complete. From the London Borough of Tower Hamlets comes a contract worth just over £1m for work on the Tower Hamlets link road. It involves the construction of 340 metres new carriageway and a 13 metre-wide road bridge spanning 30 metres across the Heron Union Canal. In other work, Tilbury is carrying out the renewal of penstocks at HM Naval Base, Portsmouth.

Tilbury will also be carrying repairs (worth £211,000) to defective concrete pile supports of a jetty at the Ministry of Defence establishment at Hythe, Southampton. For the Thames Water Authority, Tilbury will undertake phase 3 of the improvement scheme for the River Borne near Egham, in an excavation of the bed of the river to straighten and widen it. From British Rail Tilbury has received a £168,000 contract for the reconstruction of a bridge over the Liverpool Street-Cambridge line at Bishop's Cleeve. The bridge will be raised to place.

HENRY BOOT SOUTHERN has been awarded a £3.7m contract for the construction of Bromham By-Pass on the A428 Felixstowe to Weedon trunk road. Work is to start shortly on the 4 km of 7.3 metre wide single carriage way with 1 metre hardstrips.

Included in the project are two in situ reinforced concrete deck bridges, a 108 metre continuous four-span over the Great Ouse River and a continuous three-span over the A6154 road. Project completion is scheduled in 91 weeks.

LILLEY CONSTRUCTION has won three contracts totalling over £3.7m in the Shetlands. The largest, worth £2.8m, is for an oil rig service base at Dales Harbour. The client is Lerwick Harbour Trust and work involves the construction of a tubular piled jetty with a berthing depth of over 12.5 metres at low tide, protected by a stone and fabrication area of excess of 20,000 sq metres. The Shetland Council, both for the Island Council, comprise a roll-off jetty, a grouping of small islands some 10 miles east of the Shetland mainland and the painting of tanker jetty No. 3 at the Sullom Voe oil terminal. The jetty, designed by Shetland Island Council, is largely of pre-cast concrete construction.

TAYLOR WOODROW CONSTRUCTION (NORTHERN) has won a £550,000 contract from the National Coal Board for civil engineering works to improve rail shipment, from Dawdon Colliery, Seaham, Co. Durham. The contract, which is scheduled for completion in 1988, calls for the erection of a 2,000-tonne rapid loading coal bunker, together with piling, rail trackwork, a weighbridge, a conveyor, foundation and other ancillary works.

A Striling civil engineering firm has won a £1.7m contract to carry out work at Central Cexon's main reservoir, at Carron Valley, Stirlingshire. GLEESON CIVIL ENGINEERING beat seven other companies to win the contract, which involves strengthening and raising the main dam at the reservoir.

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UK COMPANY NEWS

Burnett given breathing space by banks

BY ALEXANDER NICOLL

Burnett & Hallamshire, the troubled coal and property group, disclosed yesterday that it had won several months' grace from its bankers while it formulates a divestiture programme designed to reduce mounting debts.

The company, which grew rapidly as a stock market star and then crashed out of favour after encountering a series of problems, plans to sell all but what it now considers to be core businesses—defined yesterday by Mr Eric Grayson, chairman, as "mining and marketing coal on an international basis."

The first of its divestitures was announced yesterday. Powell Duffryn, the diversified industrial group, is buying UK Petroleum Products (UKPP), Burnett's profitable oil products distribution subsidiary, for £10.2m.

being financed through a vendor placing of 4.3m shares, about 7 per cent of its expanded capital. It said UKPP will complement its existing fuel distribution network and will add new activities, taking it for example into the retail market for petrol for the first time.

The City's attention, however, was focused on Burnett, which had been thought to be surmounting its troubles until a surprise announcement at the end of February that it was in talks with its bankers, led by Barclays Bank.

Yesterday, it said that the banks, numbering over a dozen, "have agreed to hold their facilities in place on an interim basis and to provide a standby facility to the group."

The standstill period, under- stood to last into June, will

enable Burnett, the banks and accountants Price Waterhouse to produce a detailed review of its worldwide operations.

Results for the year ended March 31 1985 are likely to be delayed and "the board believes that significant provisions and write-downs will be required in the accounts," Burnett said.

Mr Thomas Carille, deputy chairman and managing director of Babcock International until his retirement last year, is assuming a semi-executive role as deputy chairman of Burnett to coordinate the group's divestitures and reorganisation.

Mr Grayson said the emphasis would be on reducing debt through the proceeds of sales of divisions—including U.S. and UK coal-related activities considered to be non-core—and that a capital reconstruction for

the group was not being considered.

Burnett has made no progress towards selling its six Californian property developments—none of which is fully let—and is now prepared to sell some of them below book value. Lack of tenants has so far prevented the sale to institutional buyers for the properties' rental streams.

Mr Grayson said, but Burnett is now hoping to achieve full tenancy at some and to sell the others in their unlet state.

A further thorn in the company's side is its presence in Iraq, where it has 100 staff and a dozen construction contracts which are virtually complete but cannot be handed over because of the Gulf War, Mr Grayson said. Additional provisions will be needed against these contracts.

Burnett was hit severely last year by the UK miners' strike, but says its activities returned to normal within a month of the strike's end. Its South African associate, Rand London—cause of the company's first shock disclosure in 1983—is continuing a recovery and has encouraging prospects, Burnett said.

Burnett's profits fell from £20m to £3.8m in the year ended March 1984 and declined further to the first half of 1984-85. Net debts were £50m at March 31 1984, but were actually believed to be larger because of off-balance sheet loans to finance joint ventures including the Californian property ventures.

The share price, as high as 190p earlier this year, fell 3p yesterday to 52p but stayed above the year's low 38p.

See Lex

Fairdales integration boosts Moss Bros

Moss Bros, the clothes retailer and formal wear hire company, earned a record £10.2m pre-tax in 1984-85 with profit margins benefiting from economies of scale achieved following the integration of the 22 shops acquired via the purchase of Fairdales in 1982.

The group, which has 57 outlets throughout the country, attained the result on turnover 8 per cent higher at £18.11m, compared with £16.79m, which generated a profit of £349,000.

Mr Manny Silverman, the chief executive, says that while the company dominated the formal wear hire market the strongest growth will come from retailing good quality men's, women's and children's clothing.

A planning application has been submitted for redeveloping Moss Bros's flagship store in Covent Garden, London, to serve the increased number of visitors to the area.

The dividend for the year to January 26, 1985 is being raised by 25 per cent from an equivalent 3.99p to 5p with the directors recommending a final payment of 3.46p.

Earnings per share, after tax of £362,000 (£254,000), rose from 13.06p to 20.63p.

comment

A clothes hire firm that holds a lunchtime press conference inside its main store and turns away the dozen or so enquiring customers isn't the sort of company that one would associate with a multiple of over 20 times reported earnings and a yield of less than 2 per cent. Investors had got so excited at the prospect of a big improvement from Moss Bros that the share price actually fell after the figures were released. A leap of over 50 per cent in profits won't be repeated in the current year, as the economies of scale from Fairdales, bought at the end of 1982, have now been exhausted.

However, there is evidently plenty of scope to increase efficiency further, and on volume up so far this year by 10 per cent, 1985 profits could be as much as £12.5m. A prospective p/e of 15 on a price of 38p and on a 40 per cent tax charge may not be too high. Moreover, the company's Covent Garden premises are worth a minimum of £1 per share—and Moss Bros are waiting for GLC approval for a £10m redevelopment plan that would create 40,000 square feet of lettable office space. Potential bidders could be frustrated by tight family control of the shares.

Kwik-Fit recovers on increased market share to £4.2m

TRADING IMPROVED significantly in the second half at Kwik-Fit Tyres and Exhausts Holdings to leave the group up on the full year following an interim downturn.

After a considerably higher charge for interest payable at £2.02m against £1.63m, the taxable result came out at £4.23m, against £1.15m for the year to February 28 1985.

The directors say that the first six months saw aggressive price competition at the retail level of the exhaust market due to the dumping of stocks by manufacturers. Steps taken to increase the group's share of the tyre and exhaust replacement business and tight control on costs, using its computerised information systems, produced the second half upturn.

The final dividend is increased from 0.7643p to 0.9411p per share for a total of 1.7254p (£568,000).

Earnings per share are given as 5.15p (£512,000) before extraordinary debits of £497,000 (nil).

Turnover increased by £5.9m to £61.19m. As regards current trading the directors say that the first seven weeks have seen substantial increases in turnover compared with the same period last year, and that these, together with the planned opening of a further 30 specialist repair outlets and the introduction of own brand products and new services should result in a year of "significant progress."

comment

The 15 per cent drop in demand for exhaust replacements that has been severed, so ending the small but steady losses (£200,000 last year) made on this venture—the almost £1m extraordinary debit is a provision for the closure costs of this business. The newly introduced profit-sharing scheme for depot managers is producing cost savings without increasing the rate of wages to turnover. However, the group's shares have been underperformers for some time and are still struggling to break out of the historically low 20-40p price range in a decisive manner. For 1985-86, the analysts have marked the company up to £5m pre-tax, a prospective p/e of almost 7 on 40p given the low 20 per cent tax rate.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corresponding div. for last year	Total for last year	Total for 1984
Boustead	Nil	—	Nil	Nil	0.5
British Empire	0.2	May 23	0.2	0.2	0.9
Clement Clarke	2.89	June 14	2.75	4.33	4.06
Cooper Industries	0.45	July 1	0.51	0.75	0.5
English National	4.6	July 2	4.1	7.7	7.03
English National	2.15	July 2	1.23	2.88	1.88
Kwik-Fit	0.94	—	0.78	1.73	1.57
Moss Bros	3.46	—	2.71	5	3.99
Scott & Robertson	1.6	June 6	1.25	2.5	2
Scottish Cities	—	—	—	—	14.5
Stat-Plant	1.5	—	—	2	—

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. ‡US\$ stock. §Unquoted stock. ¶For 10 months to December 31, 1983. ||For nine months.

Bat's debt ratings lowered

Standard & Poor's, the U.S. credit rating agency, has lowered its ratings for BAT Industries' debt following the tobacco-based conglomerate's purchase of Hambro Life Assurance for £633m last December.

The purchases of Hambro Life and of Eagle Star (for £68m in early 1984) were both largely financed by borrowings and pushed up debt as a share of capital, S & P said.

Total debt rose to 38.7 per cent of adjusted capital by the end of 1984, reflecting the Eagle Star purchase compared with 27.3 per cent a year earlier. Additional debt has been incurred in 1985 to

complete the Hambro Life purchase, S & P added.

Liquidity, traditionally a strength of the company, has also been somewhat reduced but although BAT's capital structure has been somewhat weakened, credit comfort can be derived from its continued strong operating performance, S & P commented.

S & P has cut its ratings on long-term debt issued by BAT Finance and BAT International Finance from AA-minus to A-plus and its rating on BAT Capital Corporation's commercial paper from A-1 plus to A-1. All ratings are based on the guarantee of

the parent company.

BAT said: "This is very much as expected. If you spend £140 on acquisitions that pushes your gearing up and dilutes your earnings and translates almost automatically on to your debt rating. We are still at the top end of the league table. We foresee little impact on our large commercial paper programme."

BAT said Moody's another leading U.S. credit rating agency, had downgraded its long-term debt from AA-3 to A-1 last year following the Eagle Star purchase. Moody's rating of its commercial paper was unchanged at P-1.

British Empire Trust plans £22m rights issue

BY TERRY POVEY

British Empire Securities and General Trust (BESG), has announced plans for a four-for-one rights issue at 28p, yesterday's market price. The £12.8m new shares will raise almost £22m after expenses for the investment.

This rights issue from BESG, which has net assets of £7m, follows major changes in the company since February 1984 when Imperial Life Assurance Company of Canada, currently holder of just under 30 per cent of the outstanding shares, took over the investment management of the company. Since that time BESG has concentrated its holdings so that at the end of last month as much as 75 per cent of its invested funds were held in its top 25 investments.

The unaudited net asset value per share of BESG has risen to 34.5p at March 31 from the 28.7p at the end of September. As with most investment trusts, BESG has nearly always traded at a discount to its net asset value.

Imperial Life has announced that it will subscribe to 14.24m shares—less than its full entitlement—of the expanded capital to 20 per cent.

William K. Woodruff, a Dallas-based investment banking and securities company, is to take up to 24.8 per cent of the proposed rights issue—giving it almost 20 per cent of the enlarged capital—on behalf of its clients. Woodruff is also to take a 25 per cent stake in Laurentian Asset Management, the vehicle through which Imperial Life manages its investments in

London. Imperial Life will retain the other 75 per cent of Laurentian.

The smaller shareholders in BESG must be a bit non-plussed by such a large rights issue being made at an almost 18 per cent discount to net asset value. Whatever they do short of throwing out the scheme at the May 10 shareholders' meeting will see them losing out in an arrangement that amounts essentially to the restructuring of Imperial Life's London investment management activities and the introduction of a new partner, Woodruff. Since Imperial came into BESG's life two years ago the small investment trust has been transformed into a special situations trust. When Imperial took over the management of BESG many of the private shareholders moved out and were replaced by institutions—now it seems it could be the turn of these to leave (market rumour has it that Sare and Prosper departed last week). It could even turn out that the problems the rights issue is designed to solve are simply deferred rather than resolved. Since the February 1983 change in emphasis (and management) towards capital growth instead of income growth, the share price has virtually stood still while the discount on the net asset value has widened. On May 10, BESG (in reality Imperial Life and Woodruff if this scheme goes through) will have to convince shareholders that this is really the way to improve things.

Wyko's 25% placing on USM

BY STEFAN WAGSTYL

Wyko Group, a west Midlands-based distributor and manufacturer of bearings and power transmission components, is joining the small group of engineering companies quoted on the USM.

Barclays Merchant Bank is placing 4.3m shares, or 25 per cent of the equity, with the help of Birmingham stockbroker Murray and Co. At the 80p placing price, the company will have a market capitalisation of £12m.

Of the shares placed, 1m are new shares sold to raise £505,000 for the company, which will be used to reduce bank debts and to fund future investment.

Wyko, formed in 1982 by its chief executive Mr Philip White, has grown by building up its manufacturing and distribution activities in the UK, and more recently expanding abroad, particularly in West Germany, the U.S. and South Africa. Overseas sales, including exports, now account for about 40 per cent of turnover.

In the past five years, Wyko's profits have increased strongly, although unevenly. After £220,000 pre-tax on sales of £12.2m for the year to the end of April 1980, profits dropped sharply in 1981 with the impact of the recession before recovering in 1982.

They fell again in 1983 to a low of £285,000 when the company invested heavily in expanding product ranges and the management team. However, Wyko bounced back to £1m on sales of £19.8m in 1984 and £881,000 on sales of £11.8m for the first half of 1984-85.

Wyko is forecasting pre-tax profits for the year to the end of April of not less than £1.8m pre-tax. At the placing price, the price/earnings multiple is 11.7, given a 43.1 per cent tax charge. The indicated yield is 5 per cent.

The group's biggest business is its UK distribution company, which has 22 branches across the country, supplying both large and small customers. The UK manufacturing operations concentrate on making industrial gearboxes for process plant companies in a wide range of industries.

The group sees prospects for expansion overseas as being particularly encouraging. It believes it can use its engineering skills to service the needs of customers in many countries.

Deals in Wyko are expected to start next Monday.

LOOK WHAT WE'RE MAKING IN BRITAIN

A. Björvik, Joint Managing Director NEK Cables

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UK COMPANY NEWS

Lionel Barber looks at the takeover battle going on at Ingall

Why all's not so friendly in the parlour

OPERATION FARSIGHT began inside the Greater Midlands Co-operative Society in Birmingham last autumn. The target, Ingall Industries, an aggressively expanding funeral business also based in the Midlands and the UK's only fully quoted funeral director.

The code-name "Farsight" comes from the Co-op's purchase of an off-the-shelf company, renamed in a clock-and-dangle operation which hardly squares with the lacklustre image often attributed to the co-operative movement.

But this is not the only twist in the subsequent £7.2m bid battle which has erupted for control of a chunk of the UK funeral business.

The Greater Midlands, the friendly society turned aggressor, has found its first excursion into the stock market chastening experience.

Last week, Ingall, advised by County Bank, produced a defence document which, even by today's standards, was hard-hitting.

In short, it told its shareholders that, having taken Queen's Counsel opinion, it understood that the Co-op's funeral activities were in breach of its constitution, that is to say, ultra vires.

The allegation, in response to information in the Co-op's offer document, is now before the Takeover Panel. The Panel says it cannot remember having to adjudicate on such a matter.

Funeral parlours

were fine for the fathers, but you often find the sons want something better than being on call 24 hours a day

be withdrawn if it is found to be acting ultra vires.

"Nonsense," says Mr Norman Reid, the Greater Midlands' Scots-born finance director, who points out that the Co-op has been in the funeral business since the 1930s and its own Queens Counsel has given the Co-op a clean bill of health.

Those less familiar with the funeral market may be at a loss to understand why this bid battle has generated so much heat, particularly when both parties admit

that they are competing in a market which is at best stagnant.

Market stagnation is due to the declining death rate in Britain. Most funeral directors are still family-owned and have found it difficult to remain independent. In a fragmented market, those firms like Ingall have found ready sellers.

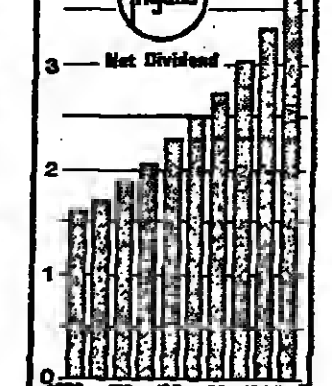
In the past year it has acquired three family businesses, boosting its number of funeral sites to 53. "Funeral parlours were fine for the fathers," explains Mr John Boodie, Ingall's chairman and a lawyer by training, "but you often find the sons want something better than being on call 24 hours a day, 365 days a year."

Ingall's string of acquisitions has enabled it to create economies of scale, not just in staff but also in overheads. Like Mr Reid, Mr Boodie agrees that once you reach a certain size, the funeral business can provide a sound and steady source of income.

This is the attraction for the Greater Midlands Co-op. Two years ago it drew up a five-year corporate plan centred on the areas: the £77m-a-year dairy production and distribution operation, ambitious plans to open new Sunbair-sized supermarkets, and the expansion of its funeral business, currently turning over £2m a year but which would flourish fourfold if it acquires Ingall.

"We are not a cozy co-op," says Mr Reid, "we are now trying to be a lot more commercially minded."

In the past 18 months, the Co-op has opened three new



superstores, bringing its total to five. The capital investment programme will increase with the sale of the freehold for its store to the centre of Birmingham. Mr Reid says the sale should raise more than £20m and should go through in the next few weeks.

To Ingall, this sounds like jam tomorrow. Moreover, the Co-op's

conservatively presented balance sheet has allowed Ingall to argue that it is overvalued, though this ignores the Co-op's substantial assets which have not been revealed for what Mr Reid describes as a "very long time" and the future proceeds from the freehold sale.

Attacking the Co-op's balance sheet could prove counterproductive. The Co-op, advised by Manchester Exchange Trust, plans to criticise Ingall's gearing (net debt is up from £385,000 to £1.7m on shareholders' funds of £2.93m). It will also criticise Ingall's recent profits record: for the six months to last December, Ingall only scraped an increase of £3,000 to £250,000 though it is predicting a comfortable rise over last year's annual pre-tax profits of £342,000.

In the final resort, much will depend on the Co-op's ability to persuade Ingall shareholders to take cash rather than paper which, being a friendly society, it cannot offer.

In the past three years, the Co-op has kept all questions to the acquisition front because, Mr Reid says, cash offers for privately owned businesses can land the acceptors with capital gains tax.

That may not be a problem if the Co-op's offer is generous. But at present it is sticking to 80p, 8p below the current market price and just 5p above the market price before its offer.

In a word, says Mr Boodie at Ingall, "it is miserly."

Henry Ansbacher disposal

BY DAVID LASCELLES, BANKING CORRESPONDENT

Henry Ansbacher, the merchant banking group, has hived off its international project finance operation to a group of employees headed by Mr Paul Slater, president of its New York subsidiary.

A new company called First International Capital Corporation has been set up in Bermuda to assume the business. It is 70 per cent owned by First International Holdings and 30 per cent by Ansbacher, which is also advancing a \$1m loan to the new venture to be repaid out of profits.

Mr Slater said the new company will concentrate on specialised project finance operations including aviation, shipping, energy and real estate including hospitals and hotels.

Ansbacher decided to hive off the business because it was performing poorly at a time when it is trying to recover from heavy losses from an ill-fated acquisition on Wall Street.

Ansbacher has also sold other businesses including metal broking, leasing and underwriting. It has rationalised its shipping and U.S. mergers and acquisitions businesses and expects them to become profitable. The group is to be recapitalised by its major shareholder, the Swiss-Belgian Groupe Pargesa Bruxelles Lambert.

Lake View

Net asset value per 25p share prior to charges at par at Lake View Investment Trust came to 347.7p at March 31 1985, compared with 321.3p a year before. Available revenue grew from £2.07m to £2.4m after tax of £1.51m (£1.23m). Earnings per share are shown as rising from 4.56p to 5.31p, and the final dividend is being raised from 2.85p to 3.05p, making a total of 2.85p (4.4p). A one-for-one scrip is also proposed.

J. Rothschild £38m backing for Stockley

Stockley's purchase of an initial 22.4 per cent in Stock Conversion and Investment Trust from Equity Trust, the company owned by the J. Rothschild group, is being financed by the issue of 44.4m ordinary shares of 10p each in Stockley and £37.5m of 5 per cent secured loan notes.

The loan notes, supported by a bank guarantee, will be redeemed by Stockley two years after completion of the acquisition and may be redeemed by the holder 14 months after completion. J. Rothschild Holdings (JRH) has agreed to provide a £38m facility to Stockley, repayable after five years, to finance the redemption of the loan notes. On completion of the acquisition, JRH will receive £600,000 commission in the form of 857,000 ordinary Stockley shares at 70p.

Because Equity Trust wants to receive the major part of the consideration from the sale in cash, Morgan Grenfell, which agreed with Stockley to purchase £5.5m of the consideration, shares and with Cazenove, placing them at 70p a share.

JRH which owns 2.1m ordinary shares in Stockley, has agreed to grant Stockley an option to purchase the JRH shares at 545p a share. The option expires on May 3 and is conditional on completion of the acquisition of the Stock Conversion shares.

Upon exercise of the option, Stockley will hold 26.5 per cent of the issued share capital of Stock Conversion. On completion of the transactions, JRH will hold about 9.3 per cent of the issued ordinary shares of Stockley.

If JRH exercises its option, Stockley will pay for the shares by issuing 16.5m ordinary shares of which 12.1m will be placed with Universities Superannuation Scheme, European Ferries and Investment clients of Morgan Grenfell.

Fifty per cent of the placed shares—including those involved in the purchase of the Equity Trust stake—will be subject to recall. In order to provide Stockley shareholders will have an opportunity to acquire shares being issued to Equity Trust and JRH, Morgan Grenfell is to offer up to 30.6m ordinary Stockley shares at 70p a share, pro-rata to their existing shareholdings (i.e. approximately two new shares for every seven held) although they may apply for more than their basic entitlement.

BOARD MEETINGS

TODAY
Interiors: S. Capper, M. J. Gleason, Japan Assets Trust, Fashion's Spectrum, The Australian Trust, Finance: Campair International, Sita and Goldstein, Falcon Resources, Financial Universal Investment Trust, Helical Bar, John Long Micro Business Systems, Sava and Prosper Linked Investment Trust, R. Smith (Kew).

FUTURE DATES
Interiors: May 7, May 14, May 21, May 28, May 31, June 7, June 14, June 21, June 28, June 30, July 7, July 14, July 21, July 28, July 31, August 7, August 14, August 21, August 28, August 31, September 7, September 14, September 21, September 28, September 30, October 7, October 14, October 21, October 28, October 31, November 7, November 14, November 21, November 28, November 30, December 7, December 14, December 21, December 28, December 31, January 7, January 14, January 21, January 28, January 31, February 7, February 14, February 21, February 28, February 30, March 7, March 14, March 21, March 28, March 31, April 7, April 14, April 21, April 28, April 30, May 7, May 14, May 21, May 28, May 31, June 7, June 14, June 21, June 28, June 30, July 7, July 14, July 21, July 28, July 31, August 7, August 14, August 21, August 28, August 31, September 7, September 14, September 21, September 28, September 30, October 7, October 14, October 21, October 28, October 31, November 7, November 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UK COMPANY NEWS

Boustead hit harder by falsification and shows loss for 1984

Boustead, the international trader which last June disclosed falsified stock records at its King Traders subsidiary, yesterday restated its figures for 1983 to show a pre-tax loss of \$844,000 and also reported a smaller loss for 1984.

This compares with a previously reported profit of \$217,000, which Mr Alan Charton, the chairman, initially downgraded by some \$50,000 last summer to take account of a deficiency which had been concealed "by deliberate falsification".

As already known, the King Traders net assets had been overstated by £1.1m, and this has now been restated in the balance sheet by way of a prior year adjustment of \$380,000, after taking account of tax adjustments.

The revised figures are shown in the group's results for 1984, which also show a taxable loss of \$106,000 for the year. At midday, reporting a profit of \$20,000, Mr Charton was confident of a "marked improvement" in the second half.

The disappointing results were principally due to losses in the group's Australian company and the UK soft commodity operation. These areas are in the process of "radical reassessment", says the chairman, adding that the other operating units performed "relatively satisfactorily".

The accounts also reveal an extraordinary profit of \$131,000

arising from the sale of certain investments by the Singapore subsidiary together with the net recovery from third parties in respect of the King Traders discrepancies.

Following the King Traders problems, management changes have been made, accounting controls strengthened and the company's auditors have made a full statement. The company returned a taxable profit of more than \$300,000 for 1984.

With the exception of the soft commodity operation, all other UK interests returned satisfactory results, especially the Metal Supplies associate.

The chairman considers that "the underlying strength of the group's activities will enable a return to profitability in 1985."

There is again no final dividend for the year. The last payment was a 0.5p interim in respect of 1983. The loss per share is stated at 0.55p (loss 3.45p).

Turnover increased by nearly \$10m to \$59.6m, and produced an operating profit of \$509,000, against a restated loss of \$300,000.

An exceptional debit of \$233,000 (nil) reflects certain non-recurring expenditure, including redundancy and an arbitration award made against the UK soft commodity company.

Investment income rose from \$697,000 to \$736,000, while interest charges were also up at £1.83m, against £1.28m. The contribution from associates was \$659,000 (\$636,000).

Moorgate Group raising £0.5m via USM placing

THE FINANCIAL marketing specialist company, The Moorgate Group, is coming to the Unlisted Securities Market, through a placing of 1.25m ordinary 5p shares at 20p each, representing 25 per cent of the issued capital.

Moorgate was founded in 1977 by Mr Jeremy Bond and Mr Jonathan Savers, joint managing directors, to provide a marketing advice and assistance service to companies and institutions operating in the financial services field.

Existing shareholders are selling 729,520 shares providing them with about \$360,000 net while 520,480 new shares are being issued by Moorgate to raise \$495,000.

Through five UK subsidiaries,

it offers not only advertising and public relations services but a complete operational service including product design and development, technical administration, marketing consultancy and direct mail services. It has its own in-house expertise provided by its full-time advisory, barrister and accountants, as well as advertising and promotional personnel.

The placing values it at £6m. Profits have grown from £14,000 in 1980 to £257,000 in 1984 and Moorgate is forecasting a pre-tax result of £430,000 for 1985 with a dividend payout of 1.4p net. This gives a p/e on a 35 per cent dividend of 20.8 and a yield of 1.7 per cent.

Brokers to the issue are Le Mare Martin.

Alexander Nicoll on the electronic rental market

The key to profitability

THE SMALL but lucrative rental market for electronic instruments, especially testing equipment, has been thrust into the limelight by recent developments at two of its major players.

First, there was a £26.3m reverse takeover bid for Energy Services & Electronics, from shell company Peak Holdings, now being vigorously contested. Its main subsidiary, Livingston Hire, vies for supremacy with Instrument Rentals, a UK subsidiary of U.S. Leasing, in hiring out test and measurement instruments and computer equipment to electronics, engineering and oil companies.

Yesterday Microlease, the up-and-coming third ranker, was forced to issue a statement in response to its first serious taste of stock market disfavour since coming to the UK in 1983.

Microlease shares had dropped from a year's high of 480p to a low of 340p following the release last week, with little explanation, of annual results indicating a sharp drop in second half profits following several years of spectacular growth.

Mr David Rennie, the chairman—who set up Microlease after leaving Livingston Hire,

which he also founded—assured shareholders that the present level of orders was a record and that rental income for March, the first month of the current financial year, was substantially ahead of March 1984. The share price recovered 23p to 363p.

Nevertheless, his disclosure of a disappointing autumn and of

panic which have spent heavily on new equipment cannot afford to see it go unheeded.

This requires astute assessment of customers' likely needs. Equally, the renters would be unhappy to see their utilisation rates rise above about 70 per cent because this would mean they were unable to provide

Mr Paul Rennie, Microlease finance director, yesterday blamed price competition between the two other companies for recent market volatility. "We steer clear of it," he said. "We can maintain utilisation without giving big discounts."

Microlease also attributes the second half 1984 slackness to the phase-out of capital allowances announced in last year's Budget. Some customers, especially smaller ones, rushed to buy rather than rent equipment to take advantage of capital allowances while they could.

Its larger competitors, perhaps with a better spread of larger customers—Livingston has a strong presence on the Continent—say they did not see a fall-off in demand.

Despite the hiccup at Microlease, the City is still bullish on the specialised sector.

Mr Gerald Davies, analyst at stockbrokers Savory Miln, says: "Companies can continue to widen their scope and the service that they offer. It's going to be more competitive but I don't think it's an overpopulated market at present."

'We can maintain utilisation without giving big discounts'

a particularly slack period at Christmas suggested a volatility in the market which had not previously been evident—at least on the downward side.

Microlease and its two larger rivals do not have long order books because they aim to provide next-day service on a range of testing equipment, often needed in a hurry by their customers. Instruments may be rented for a year or only days, but the average has tended to be between two and three months.

Clearly, utilisation is the key to profitability. Rental com-

prompt service. Among typical instruments hired are logic and spectrum analysers, electric line test equipment and oscilloscopes. The three also offer personal and desktop computers and related goods.

Instrument Rentals has adopted an aggressive pricing policy, and Livingston Hire also offers discounts based on length of rental and volume.

Mr Frederick Rollason, Energy Services chairman, insists, however, that Livingston is not interested in entering a price war.

Babcock Intl. pays £25m for U.S. castor subsidiary

Babcock International, the power engineering group, is to buy Faultless Castor Corporation, a major U.S. maker of castors for \$33m (£25.5m cash).

Faultless made pre-tax profits of \$7.5m on turnover of \$68.2m in 1984 and had net assets of \$25.9m at the year end.

Faultless, which claims to be the largest full line manufacturer of castors in the world, will complement Babcock's subsidiary Keeler Brass Company, which makes decorative furniture hardware such as knobs, knockers and drawer slides.

The purchase, which still

requires approval of the U.S. regulatory authorities, will be carried out by Babcock International Inc, a fully-owned Babcock subsidiary.

The deal should be completed by May 31. Faultless is currently owned by New Axia Holding Corp of Oak Brook, Illinois. New Axia was a listed company which was taken private by means of a management buy-out. The management is selling Faultless to pay off a bridging loan.

Faultless has two plants in Evansville, Indiana, three other plants elsewhere in the U.S. and a subsidiary company in Canada.

Stat-Plus up 46% at £1.02m

The Stat-Plus Group, supplier of law and commercial stationery, pushed its 1984 sales and pre-tax profits up by 28 per cent and 46 per cent respectively and says trading continued to be "excellent" in the opening quarter of the current year.

During 1984 the group invested in new computer systems whereby order entry, invoicing and stock control were computerised.

Cash flow continues to be

strong—an overdraft of £474,000 at the end of 1983 was turned into a credit of £338,000 a year later.

Group turnover for 1984 improved from £3.56m to £4.54m and at the pre-tax level profits rose by £322,000 to £1.02m.

A final dividend of 1.5p makes a total of 2p net per 5p share, 0.2p higher than was forecast last May at the time of the company's entry to the USM.

MFI in £23.6m finance leasing sale to Wardley

BY LIONEL BARBER

MFI Furniture, which recently agreed to a £563m merger with Associated Dairies (Asda), has sold two finance leasing companies for £23.6m to Wardley, the merchant banking arm of the Hong Kong and Shanghai Banking Corporation.

The sale of the two companies, B. A. Turner and Capital Collections, was completed last month and is disclosed in the Asda offer documents issued yesterday.

Under the deal, Wardley paid \$100 plus the repayment of MFI loans of around £5.8m for Capital Collections. Similar arrangements were concluded for BA Turner which included £100,000 plus the repayment of intragroup loans of £13.6m.

Mr Edward Lee, finance director of MFI, said yesterday that the group had made a profit on the disposal of the two companies which were no longer

central to MFI's business.

Elsewhere in the document, Mr Derek Hunt, MFI chairman and managing director, says the merger with Asda represents "a unique opportunity to combine the two leading exponents of edge-of-town and out-of-town retailing."

Asda is offering 15 new ordinary shares of 25p for every eight ordinary shares in MFI or a cash alternative of 144p per share. MFI share, equivalent to 270p ordinary share in MFI.

On the basis of last night's closing prices for Asda, of 190p, down 2p on the day, the offer values MFI at £563m or 281.2p a share. MFI closed at 280p, down 10p on the day.

On the day the merger was announced, Asda's shares climbed to 164p valuing MFI at £615m or 307.5p a share. The first closing date for the recommended offer is May 14.

McLeod Russel expansion

McLeod Russel has made two acquisitions, the first a 31.4 per cent minority holding in Ifley Cotton that it did not previously own, and the second the whole of the capital and intergroup loan of Kurumel Plantations from Pioneer Concrete Services of Sydney, Australia.

The Ifley stake will cost AS\$9m (£2m) in cash with a further payment equal to 31.4 per cent of profits for the year ended next June. Consideration for Kurumel will be Kina 2.5m (£1.01m).

Ifley has over 7,000 acres of cotton which are now being harvested, and Kurumel owns tea and coffee plantations in Papua New Guinea.

Net assets of Ifley at the end of last June were £11.55m and pre-tax profits for the previous 18-month period were £1.25m. Net assets of Kurumel at the same date were £2.25m and pre-tax profits were £177,000.

NOTICE



BANCO DE LA NACION ARGENTINA

U.S.\$25,000,000

Floating Rate Notes due 1987

In accordance with the provision of the Notes notice is hereby given that for the six-month Interest Period from 23rd April, 1985, to 23rd October, 1985, the Notes will carry an Interest Rate of 9 per cent per annum and the Coupon amount per US\$5,000 will be US\$228.75. Interest Payment Date is 23rd October, 1985.

DAIWA SINGAPORE LIMITED

Agent Bank

U.S. \$60,000,000

THE MORTGAGE BANK AND FINANCIAL ADMINISTRATION AGENCY OF THE KINGDOM OF DENMARK

(Kongeriget Danmarks Hypotekbank og Finansforvaltning)

GUARANTEED FLOATING RATE NOTES

DUE 1990, SERIES 82



Unconditionally guaranteed by THE KINGDOM OF DENMARK

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest for the six months 24th April, 1985 to 24th October, 1985 has been fixed at 9% per cent per annum and that the coupon amount payable on coupon no. 5 due on 24th October, 1985 will be U.S. \$4,838.54.

The Sumitomo Bank, Limited

Reference Agent

MINING NEWS

Sonora to use £31m loan as platform for gold expansion

BY KENNETH MARSTON, MINING EDITOR

Sonora Gold of Canada aims to become one of the largest and lowest cost gold producers in North America now that the Bank of America is providing a loan of US\$40m (£31.4m) for the development of the company's Jamestown gold deposits on California's "Mother Lode" gold belt 125 miles east of San Francisco.

The loan will be used to complete mine and mill construction and provide working capital to finance the start-up phase of operations. The Bechtel group will construct the mine complex and together with ABM Mining will provide a team to operate the mine.

Six separate deposits extend over five miles. Open-pit reserves are estimated at 24.8m tonnes averaging 0.085 ounces (2.6 grammes) gold per tonne. The deeper underground reserves are put at a possible

\$2.9m tonnes with an average grade of 0.136 oz (4.2g). The limits of the archaean have not yet been defined.

The ore reserves presently estimated would sustain a mine life of 21 years on the basis of a 6,000-tonnes-per-day open-pit mining operation. In the hope of actual reserves proving to be higher, Sonora has purchased a mill capable of being expanded to handle 10,000 tonnes of ore a day.

Sonora estimates that in the early years the operation's break-even costs will equal US\$185 per ounce of gold before bank interest. Mr Ian Wright, a director of Sonora, said yesterday that construction work was almost complete and once the water discharge permit had been received the mine could be in production within about six months.

Lower metal prices take Cominco into the red

CANADA'S Cominco metals and chemicals group has started the year with first quarter loss of \$500,000 (\$247,500) after an extraordinary gain of \$29.4m from the sale of part of the company's holding in Pine Point Mines.

The loss compares with a net profit of \$4.5m year ago and the subsequent 1984 total profit of \$28.2m.

Inevitably, Cominco has suffered from lower prices for its zinc, lead, silver and gold despite maintained sales. However, it is pointed out that the recent weakness in the Canadian dollar has been a helpful factor in earnings.

The company's chemicals and fertilisers division earned an operating profit of \$8m, compared with \$13.4m in the same period of last year. Sales of ammonia and urea were lower

but significantly higher prices were obtained. On the other hand, potash prices fell in line with oversupply in U.S. markets.

Cominco says that the zinc outlook for the rest of this year is one of improved prices and demand, consistent with a seasonal weakening of the U.S. dollar and strengthened western world economies. Lead prices are expected to remain at low levels. Sales of fertilisers should increase.

Pine Point Mines earned \$2.8m in the first quarter compared with \$2.4m a year ago. During the latest period the mine increased its sales of zinc and lead concentrates, but prices remained weak. Open-pit operations are expected to be carried out as planned in 1985 and there will be continued testing of the feasibility of underground mining.

BASE LENDING RATES

A.B.N. Bank	13 1/2%	C. Hoare & Co.	12 1/2%
Allied Irish Bank	12 1/2%	Henckels & Shand	12 1/2%
Bank of America	12 1/2%	Johnston Matthey Bkrs.	13 %
Bank of Canada	12 1/2%	Knowles & Co. Ltd.	12 1/2%
Bank of China	12 1/2%	Lloyds Bank	12 1/2%
Bank of India	12 1/2%	Edward Manson & Co.	14 %
Bank of Japan	12 1/2%	Mechraj & Sons Ltd.	13 %
Bank of Korea	12 1/2%	Midland Bank	12 1/2%
Bank of London	12 1/2%	Morgan Grenfell	13 %
Bank of Mexico	12 1/2%	Mount-Credit Corp. Ltd.	12 1/2%
Bank of New Zealand	12 1/2%	National Bk. of Kuwait	12 1/2%
Bank of Persia	12 1/2%	National City Bank	12 1/2%
Bank of Portugal	12 1/2%	National Westminster	12 1/2%
Bank of Spain	12 1/2%	Northern Bank Ltd.	13 %
Bank of Siam	12 1/2%	Norwich Gen. Trust	12 1/2%
Bank of Switzerland	12 1/2%	People's Trust	14 %
Bank of the South Seas	12 1/2%	Provincial Trust Ltd.	13 1/2%
Bank of Tokyo	12 1/2%	R. Raphael & Sons	12 1/2%
Bank of Victoria	12 1/2%	F. S. Retson	13 %
Bank of Western Australia	12 1/2%	Roxburgh Guarantee	13 1/2%
Bank of Yugoslavia	12 1/2%	Royal Bank of Scotland	12 1/2%
Bank of Zaire	12 1/2%	Royal Trust Co. Canada	12 1/2%
Bank of Zanzibar	12 1/2%	Henry Schroder Wags	12 1/2%
Bank of Zimbabwe	12 1/2%	Standard Chartered	12 1/2%
Bank of the Middle East	12 1/2%	T.C.B.	12 1/2%
Bank of the Pacific	12 1/2%	Trustee Savings Bank	12 1/2%
Bank of the South	12 1/2%	United Bank of Kuwait	12 1/2%
Bank of the West	12 1/2%	United Bank of London	12 1/2%
Bank of the East	12 1/2%	Westpac Banking Corp.	13 %
Bank of the North	12 1/2%	Whiteaway Laidlaw	13 1/2%
Bank of the South	12 1/2%	Williams & Glyn's	12 1/2%
Bank of the West	12 1/2%	Wintrust Secs. Ltd.	12 1/2%
Bank of the East	12 1/2%	Yorkshire Bank	12 1/2%
Bank of the North	12 1/2%	Members of the Accepting Houses Committee:	
Bank of the South	12 1/2%	7 day deposits 9 1/2%, 1 month 10 1/2%, 3 months 11 1/2%, 6 months 12 1/2%, 1 year 13 1/2%	
Bank of the West	12 1/2%	10% notice 12 1/2%, 12 1/2% when £10,000+ remains deposited.	
Bank of the East	12 1/2%	Call deposits £1,000 and over 9 1/2% from 1/1/85	
Bank of the North	12 1/2%	21-day deposits over £1,000 10 1/2%	
Bank of the South	12 1/2%	Mortgage base rate.	
Bank of the West	12 1/2%	United Provincial Trust Ltd.	
Bank of the East	12 1/2%	Demand deposits 9 1/2%	

CHAIRMAN'S STATEMENT

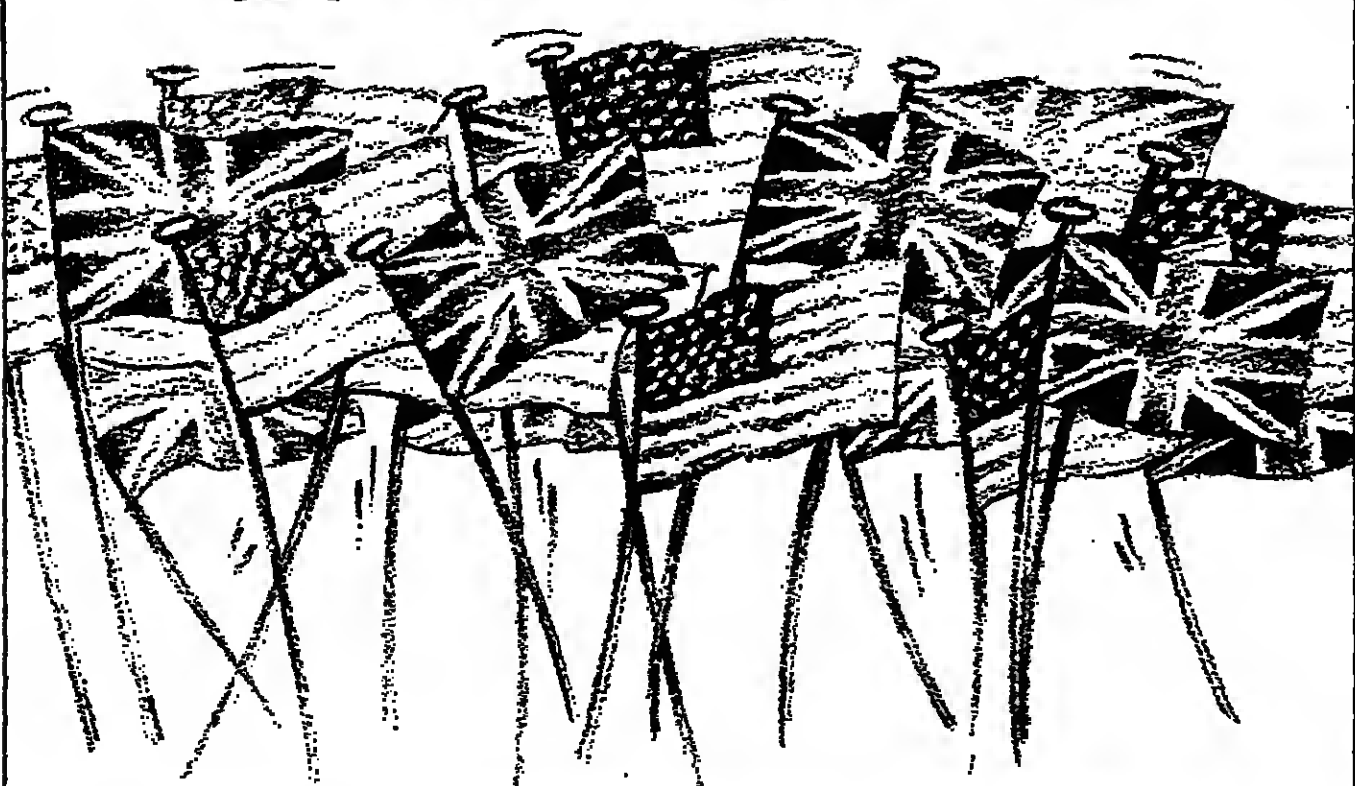
Extracts for Year Ended December 1984

- New Business**
 - Results significantly better than those for industry as a whole.
 - Self-employed pensions increased due to strong competitive contracts.
 - Insured retirement benefit schemes business has shown a marked increase also.
- Unit Linking**
 - At this time last year the Company entered the unit-linked market with a wide range of contracts designed to compete with the best on offer. Premiums of £24 million in less than a year brought in under this, the biggest venture of its kind, undertaken by Scottish Life.
 - Team of specialist unit-linked consultants established to give expert service to independent intermediaries.
 - A recent survey indicated that U.K. Equity fund was 3rd of 84 similar trusts; European and American funds were 3rd and 4th in their categories.
- Bonus**
 - Rates of reversionary bonus increased to record levels at end of the year.
 - Rates of terminal bonus now being paid are higher—considerably so in most cases—than those paid on comparable policies in previous years.
 - Excellent bonus results show Scottish Life policies to be the very best. Policyholders can continue to expect good value.

Scottish Life

19 St Andrew Square, EDINBURGH. Telephone: 031-225 2211.

THE GROUP THAT'S GOING PLACES.



If you want to know more about the Hawley Group of companies come to our shareholder meetings at the following venues:

Edinburgh—29 April, Castle Suite, Caledonian Hotel, Princes Street, Edinburgh at 12 noon. 031-225 2433
Manchester—30 April, Cheshire Suite, Valley Lodge Hotel, Altrincham Road, Wilmslow, Cheshire at 3.00 pm. 0625-529201
London—1 May, Nine King Suite, Royal Lancaster Hotel, Lancaster Terrace, London W2 at 12.15 pm. 01-262 6737

We look forward to seeing you there.

Profit before taxation (£m)

84 31.485
83 14.234
82 5.305

0 2 4 6 8 10 12 14 16 18 20 22 24 26 28 30 32

Earnings per share (pence)

84 11.4 (+77%)
83 6.4 (+49%)
82 4.5

0 5 10 15 20 25 30 35 40 45 50 55 60 65 70 75 80 85 90 95 100 105 110 115 120

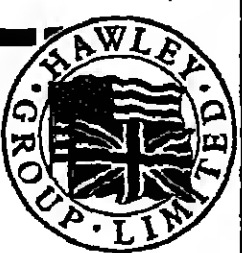
For our latest Report and Accounts please send to 5 Hanover Square, London W1R 9HE

Name

Address

(FT)

Postcode



UK COMPANY NEWS

Clayform coming to USM through 2.5m share offer

BY STEFAN WAGSTYL

Clayform Properties, which specialises in the development of shopping malls and high technology factories, is coming to the USM with a market capitalisation of £16.1m.

Samuel Montagu, the merchant bank, is offering for sale 2.5m shares, equal to 25 per cent of Clayform's equity. The rest will stay in the hands of its directors, their families and Electra Investment Trust.

The company concentrates on developments which are pre-empted by institutional investors. Formed in 1981, Clayform has so far completed schemes worth a total of £32m, with another £44m now under development, including its largest project to date—a shopping centre in Guildford.

It has plans to start developments worth £65m in the next two years, among them a £44m shopping centre in Leeds.

Profits have grown rapidly from £56,000 pre-tax for the 17 months to the end of March 1983, to £175,000 the following year, and £549,000 for the nine months to the end of December 1983.

Last year, Clayform made just over £1m pre-tax and for 1985 it is forecasting not less than £2.5m.

The group's high technology developments, designed for electronics companies and smaller tenants, are concentrated in towns close to the M4 motorway.

The retail schemes, which account for about two-thirds of its business, are carried out throughout England. Typically, Clayform takes on High Street sites, often occupied by department stores, and develops them

by either converting the existing buildings, or building new ones.

A major step in the company's expansion was the acquisition last year of Schofields, a Leeds-based group of three department stores, for £16.1m. Clayform intends to move Schofields' Leeds shop to new premises and build a £44m shopping mall on its existing site. Schofields' stores in Harrogate and Skipton are to continue trading.

The proceeds of the share offer will help reduce borrowings, which have been used to help pay for Schofields. Of the shares being sold, 1.3m are new shares being sold to raise £1.8m. Allowing for this, net assets will be around £5m, against net borrowings of £17.5m, of which £14.5m is a low-interest loan from the institution which will fund the Schofields development due to start in mid-1985 and end in 1988.

The board is headed by Mr David Hyman, the executive chairman, who formerly ran the Henderson-Kentons retailing group taken over by Harris Queensway in 1980. He and the other directors say that Clayform's development programme is a strong foundation for growth in 1985 and 1987.

The shares are being offered at 185p, on a multiple of 10.4 times forecast earnings, given an estimated 41.25 per cent tax charge.

A 5p net dividend is forecast for 1985, with an indicated full year payout of 7.5p, making the yield 6.5 per cent. The net asset value per share is 50p.

Brokers to the issue are W. Greenwell.

comment

Clayform Properties is an extreme example of that breed of developer which relies on outside funds to fund its schemes and shies away from building an investment portfolio of its own. The name of the game is to accumulate cash and pay out healthy dividends rather than create property assets. It is relatively short life. Clayform has proved itself very adept at this activity—coming to market with a strong profit report and an impressive series of developments, which have involved some of the City's largest institutional investors. Clearly, there are risks in moving so quickly in property, particularly as Clayform has needed to borrow quite heavily on the way—after the formation and taking over the Schofields bridging loan, net debt will still be £5m against shareholders' funds of £2m. However, the group's emphasis on prime sites—both retail and industrial—minimises the dangers. Moreover, the group's expansion over the next few years is bedded firmly on the large Schofields scheme. All this seems to support the 185p offer price—on a 10.4 p/e Clayform is broadly in line with two comparable companies on the market, London and Edinburgh Trust and Speybank. The 6.5 per cent yield should make the shares particularly attractive for income-minded funds which rarely get the chance to invest in young companies since these generally aim to reward investors with capital growth rather than dividends.

Clement Clarke falls 40%

A NEAR 40 per cent fall in pre-tax profits from £2.1m to £1.3m was experienced in 1984 by Clement Clarke (Holdings), the dispensing optician. However, after stripping out £401,000 of arrears of professional fees in 1983 the underlying fall was 25 per cent.

The dividend total, however, is being lifted from 4.063p to 4.339p by a higher final payment of 2.889p. Earnings per 25p share were 5.8p lower at 8.43p. Profits were achieved on turnover of £18.96m, against £17.56m, the underlying fall was 8 per cent.

There were extraordinary charges of £50,000 (£15,000), leaving the available balance at £24,000 (£28,000). At half-year, profits were down from £231,000 to £210,000, the directors said that the outlook for manufacturing subsidiaries in the second half was good but uncertain for the optical retail sector.

Persimmon

The offer for sale of 4.1m ordinary shares in Persimmon, at 100p per share, has been oversubscribed with applications being received for a total of 9.35m shares, excluding employee applications. The basis of allotment is that applications for 200,000 shares will be met in full, for 1,200 to 5,000 shares, approximately 60 per cent with a minimum of 1,000, for 5,000 to 12,000 approximately 50 per cent with a minimum of 3,000; and for 12,000 and over, approximately 38 per cent, with a minimum of 5,000.

Applications from employees have been met in full and resulted in the allotment of 17,350 shares. Dealings will start on April 29.

Cooper

On turnover of £24.13m for the year to the end of January 1985 Cooper Industries has produced pre-tax profits of £544,000. This compares with turnover of £15.35m and profits of £310,000 for the nine months to the end of January 1984.

Earnings per share are shown as 2.2p (8p) and there is a final dividend of 0.45p, which gives a total of 0.75p for the year, against a single 0.25p payment for the same month. Company activities include steel rolling, precision engineering and tool distribution.

Hollis Bros

Hollis Bros and ESA, an 81.7 per cent owned subsidiary of Persimmon, more than doubled its taxable profits in 1984 from £387,000 to £863,000.

While there is still no dividend, the directors hope to resume payments as soon as possible.

Hollis is engaged in timber importing, plastic moulding, furniture, and contracting furniture manufacturing. Turnover rose from £20.42m to £30.11m.

Ryan Intl.

Ryan International, the coal group recently rescued with a capital reconstruction led by Mr Crispian Holton, now managing director, has sold its loss-making U.S. operations for £45,000.

Total Energy Leasing, the buyer, has assumed debt relating to the operations totalling £1.5m (£1.4m). Ryan has also repaid £708,990 in final settlement of £1.17m of UK loans. Its net borrowings are reduced to £1.2m against net assets of £7.8m.

The U.S. operations made a £3.15m loss in 1984 after a £2.3m writedown of plant.

Stewart Nairn

The enlarged Stewart Nairn Group raised turnover from £23.14m to £4.59m in the six months to December 31, 1984, but returned pre-tax profits of £10,000, against a previous £203,000.

Basic earnings per share were 0.006p (0.29p) and basic net asset value per share was 14.72p (14.94p). Trading figures show a return to profitability, but the results do not yet justify payment of an interim dividend. The group is engaged primarily in property investment, development, trading and management.

Baird Eves buys

Further expansion is announced by estate agents Baird Eves with the acquisition for £400,000 of Millers Estate Agents. The consideration will be met by £225,000 cash and the issue of 34,362 shares, valued at 74.5p each.

Millers operates from offices in Banbury and Northampton, and will increase the Baird Eves group sales offices to 114. Millers is expected to contribute profits of no less than £100,000 in the year beginning May 1985.

Yearlings unchanged

The interest rate for this week's issue of local authority bonds is 11 1/2 per cent, unchanged from last week and compares with 9 1/2 per cent a year ago. The bonds are issued at par and are redeemable on April 30 1986.

A full list of issues will be published in tomorrow's edition.

Abaco purchase

Abaco Investments is paying £275,000 for a 49 per cent interest in Chesham Hill (Holdings), a company formed to acquire the 70 per cent interest in Chesham Hill held by Central & Sherwood.

Klark Teknik trebles interim profit

IN ITS first figures since joining the USM last November, Klark Teknik, advanced sound processing and communication equipment maker for the electronic media markets, reveals a 103 per cent expansion in turnover to £1.5m and profits more than trebled from £212,000 to £640,000 for the six months ended January 31, 1985.

The directors say that the group's position remains strong in all its major world markets accounting for 83 per cent of sales value.

As stated in the prospectus last year, no interim is being paid but the directors hope to recommend a final distribution of 0.6p net per share, payable in

December. Commenting on the full year Mr Phillip M. Clarke, chairman, says that prospects for the 12 months depend on sales, and to a small degree, international currency movements. He adds, however, that it would "not be realistic to expect the same percentage growth achieved in the first half to follow through for the full year."

For the whole of the year ended last July turnover amounted to £1.78m and taxable profits were £701,000.

Six months' tax charge is given as £229,000, compared with £102,000 previously, and after minority interests of £22,000 (£1,000), the attributable balance

emerged £250,000 higher at £359,000. Stated earnings per share are shown as 2.56p, against 0.78p.

In their prospectus, last October, the directors said that while they considered it too early to make a forecast for the whole of the current year, they said the year had started "exceptionally well with an encouraging level of orders."

They added that margins were benefiting from the current strength of the dollar and that in these circumstances they were confident of continuing excellent growth.

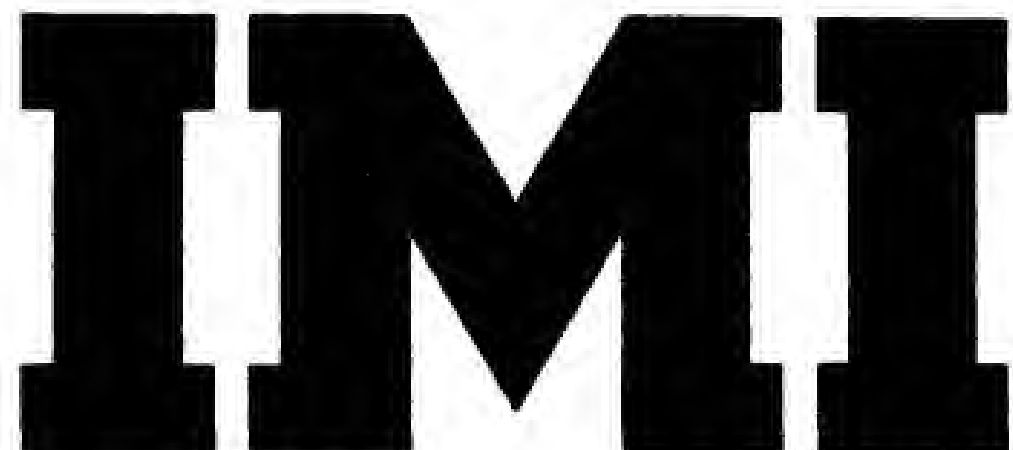
Commenting on the interim period, Mr Clarke says that sales by the group's U.S. subsidiary have been very satisfactory

while the 10 standard products in the group's range, during the equivalent period last year, have shown "satisfactory sales growth."

The strength of the dollar during the six months contributed to group profits, the directors point out, and they have substantially protected this position with forward purchase of sterling requirements.

They add, however, that unit sales have not been particularly helped by weak sterling against the dollar as the group's U.S. selling prices, in dollars, have been maintained.

Excellent results were achieved with the group's DN 750 digital reverberator/processor, introduced last October.



BUILDING PRODUCTS • HEAT EXCHANGE • DRINKS DISPENSE • FLUID POWER
SPECIAL-PURPOSE VALVES • GENERAL ENGINEERING • REFINED AND WROUGHT METALS

Profits double in two years

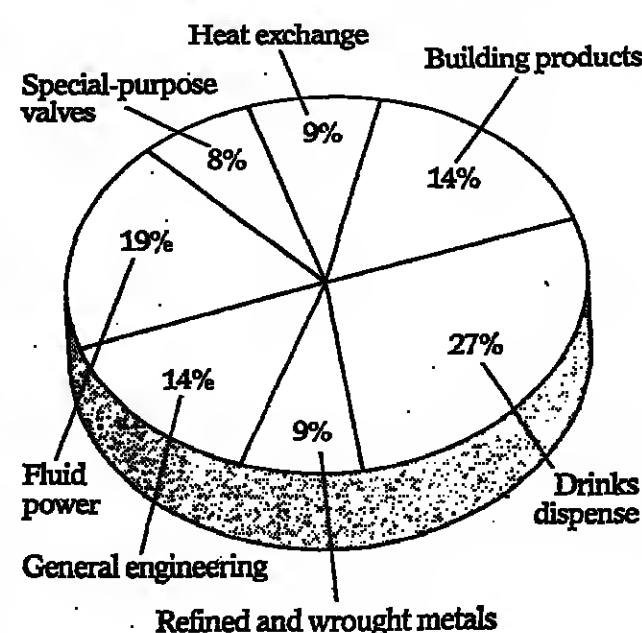
Sir Robert Clark, Chairman, reports that the Company's progress continued in 1984 with turnover and profits reaching new high levels.

"Our pre-tax profit, which fell by 40 per cent. between 1979 and 1982, has now more than doubled over a two-year period. Whilst this does little more than restore our return on assets to the levels of 1978 and 1979, and indeed to the rate necessary to sustain a healthy and expanding business, it is nonetheless an achievement worthy of note. I hope that shareholders will now echo my pleasure in recommending that the dividend should be restored to the 1981 level of 4.5p."

Summary of Results	1984	1983
	£m	£m
Turnover	737.9	676.3
Trading profit	52.6	41.6
Profit before taxation	45.1	31.6
Earnings applicable to shareholders (excluding extraordinary items)	28.9	19.4
Earnings per share (excluding extraordinary items)	10.7p	7.2p
Dividend per share	4.5p	4.0p

Sir Robert emphasises the need to ensure that the hard lessons learned in the years of depression are not forgotten in the Company's continuing search for efficiency, growth and balance — "...balance between home and overseas operations and between our traditional and newer activities. I believe that in reducing our dependence on low added value metal working in the UK we have made necessary and valuable progress towards safeguarding and improving the quality of our earnings. We have the skill and resources to take this process further, but in my view it is more important that we do this soundly than that we do it quickly. We shall seek to avoid both specialisation that is too narrow and diversification that is too wide."

Percentage profit by product area



IMI means more than metal
The Annual Report has a comprehensive survey of IMI's activities. If you would like a copy please write to the Secretary, IMI plc, P.O. Box 216, Birmingham B6 7BA.



Scott & Robertson turns in £1m and pays 2.5p

PRE-TAX profits of Scott & Robertson, packaging products and fabric manufacturer, amounted to £1.02m for the year against a surplus of £19.64m. This is compared with a surplus of £785,000, and £17.79m turnover, for the previous 10 months.

Halfway profits were £556,000, against £597,000 which were related to exchange and sales in Italy.

A final dividend of 1.8p (1.25p) lifts the 12 month total to 2.5p (2p). Earnings per share are given as 11.36p (10.31p).

Struck after depreciation

charges on fixed tangible assets up from £467,000 to £613,000, operating profits amounted to £1.18m for the year against a previous £825,000.

Pre-tax figure was after £103,000 (nil) for the employee share scheme and interest charges of £51,000 (£40,000). Tax was up from £26,000 to £150,000.

Minority interests took £20,000, against £22,000 and after lower extraordinary debits of £176,000, compared with £590,000. Attributable profits emerged up from £177,000 to £671,000.

Hadson sells UK assets to Britoil

Shares of Hadson Petroleum International (HPI) were suspended from trading on Monday at the company's request following the announcement that it will sell its UK assets to Britoil for £27m.

Upon completion of the sale HPI will receive £27m to add to current cash balances of £8m. After taxes it is estimated that the group will have a net cash position of approximately £30m.

HPI's budgeted 1985 exploration and development programme would have significantly reduced its cash position by the end of this year, the directors say.

Competition of this sale will enable the group to continue its active exploration in Spain, Indonesia, and South Korea, and will give the company added strength to pursue exploration opportunities in South America, Africa and the Far East, it is stated.

HPI and its subsidiaries are involved in Indonesian exploration activities encompassing 52,000 square kilometres in four different concessions, with existing firm work commitments totalling 89m. Further contingent obligations total £2m.

Exploration activities in the offshore area of South Korea Block V are proceeding satisfactorily, directors say. Although audited results for 1984 have not yet been finished they say it is likely that HPI will show a small profit for the year.

Hadson Petroleum Corporation has notified the HPI board of its desire to initiate discussions which may or not lead to an offer being made for the HPI shares not already owned.

Corporation owns 47m (76 per cent) of the 62m outstanding HPI ordinary. The remaining 15m shares are held by UK investors.



The Republic of Italy
U.S.\$ 500,000,000

Floating Rate Notes due 2005

In accordance with the provisions of the Notes, notice is hereby given that for the initial Interest Period from 24 April, 1985 to 24 May, 1985 the Notes will carry an interest rate of 8 1/4% per annum. The interest payable on the relevant interest payment date, 24 May, 1985 will be US\$70.31 per US\$1,000 nominal amount, and will be paid only through Cedit SA and Morgan Guaranty Trust Company of New York, Brussels Office, as operator of the Euroclear System, in accordance with the terms of the Temporary Global Note.

24 April, 1985.
THE CHASE MANHATTAN BANK, N.A.
LONDON, AGENT BANK.



WH Allen

Publishers of WH ALLEN Hardcover and CRESCENT LARGE PRINT
STAR TARGET and COMET Paperback Books

A RECORD YEAR

	1984	1983
£000	£000	
Profit after Tax	465	102
UP 358%		
Profit over Forecast of £290 UP 60%		
Turnover	5775	4757
UP 21%		
Exports	2244	1566
UP 43%		
Shareholders Funds*	2335	153
UP 1439%		
Earnings per Share	3.5p	N/A

*IN MARCH 1984, £1,000,000 WAS RAISED BY A R.E.S. SHARE ISSUE

★ Earnings per share were 3.5p. To B.E.S. investors this represents a P/E ratio of 4.8; to a 60 per cent marginal tax payer, after B.E.S. relief, a P/E ratio of 1.9.

★ 1985 will be an even better year. Management Accounts so far in 1985 support that belief.

★ Our strategy is to build and acquire quality businesses to underpin our continuing growth and prosperity, utilising our substantially enlarged capital base.

ANNUAL REPORT FROM: WH ALLEN & CO. PLC, 44 HILL ST, LONDON W1X 8LB.

case

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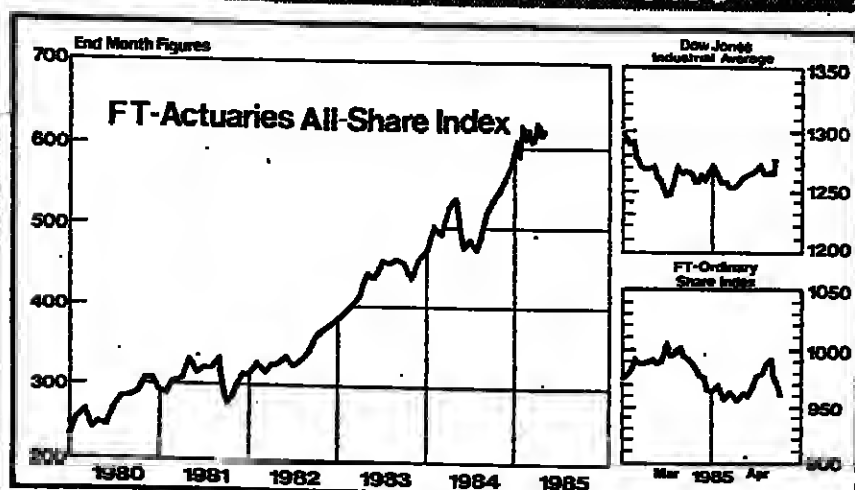
SECTION III - INTERNATIONAL MARKETS

FINANCIAL TIMES

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tightly-priced
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KEY MARKET MONITORS



NEW YORK	April 23	Previous	Year ago
DJ Industrials	1,271.97	1,265.55	1,149.5
DJ Transport	583.37	582.49	498.05
DJ Utilities	155.31	154.90	125.87
S&P Composite	181.15	180.70	177.61

LONDON	April 23	Previous	Year ago
FT-100	959.8	971.8	887.6
FT-All-Share	1,294.9	1,294.9	1,105.4
FT-A All-share	819.05	824.23	822.44
FT-A 500	678.85	685.61	567.90
FT Gold mines	507.6	512.8	688.0
FT-A Long gilt	10.5	10.47	10.31

TOKYO	April 23	Previous	Year ago
Nikkei-Dow	12,124.14	12,179.92	10,800.8
Tokyo SE	951.08	952.61	848.51

AUSTRALIA	April 23	Previous	Year ago
All Ord.	859.8	848.4	758.3
Metals & Mins.	565.7	550.2	540.7

AUSTRIA	April 23	Previous	Year ago
Credit Aktien	79.59	78.84	54.96

BELGIUM	April 23	Previous	Year ago
Belgian SE	2,233.29	2,224.23	-

CANADA	April 23	Previous	Year ago
Toronto	2,020.7	2,022.5	2,177.0
Metals & Mins.	2,633.1	2,630.7	2,325.2
Montreal	129.95	129.98	112.82

DENMARK	April 23	Previous	Year ago
Copenhagen SE	192.44	191.12	192.67

FRANCE	April 23	Previous	Year ago
CAC Gen	213.0	213.3	173.0
Ind. Tendance	115.9	116.4	90.7

WEST GERMANY	April 23	Previous	Year ago
FAZ-Aktien	424.85	424.67	399.58
Commerzbank	1,230.4	1,230.1	1,022.7

HONG KONG	April 23	Previous	Year ago
Hang Seng	1,511.63	1,487.40	1,115.85

ITALY	April 23	Previous	Year ago
Banca Comit.	275.14	276.44	218.48

NETHERLANDS	April 23	Previous	Year ago
ANP-CBS Gen	206.4	207.2	159.0
ANP-CBS Ind	166.4	166.3	126.3

NORWAY	April 23	Previous	Year ago
Oslo SE	916.26	913.51	814.47

SINGAPORE	April 23	Previous	Year ago
Straits Times	795.04	787.99	995.23

SOUTH AFRICA	April 23	Previous	Year ago
Gold	n/a	1,116.3	1,033.7
Industrials	n/a	972.9	1,058.8

SPAIN	April 23	Previous	Year ago
Madrid SE	110.02	110.15	82.11

SWEDEN	April 23	Previous	Year ago
J & P	1,435.35	1,430.71	1,527.5

SWITZERLAND	April 23	Previous	Year ago
Swiss Bank Ind	418.0	419.2	372.3

WORLD	April 23	Previous	Year ago
Capital Int'l	204.0	204.2	187.3

COMMODITIES	April 23	Previous	Year ago
(London)	Apr 23	Prev	Year ago
Silver (spot fixing)	469.90p	469.90p	469.90p
Copper (cash)	£1,215.75	£1,185.00	£1,185.00
Coffee (May)	£2,084.00	£2,047.00	£2,047.00
Oil (spot Arabian light)	\$27.60	\$27.60	\$27.60

GOLD (per ounce)	April 23	Previous	Year ago
London	\$328.50	\$328.50	\$328.50
Zurich	\$328.25	\$328.50	\$328.50
Paris (fixing)	\$325.55	\$328.25	\$328.50
Luxembourg	\$325.80	\$327.60	\$328.50
New York (June)	\$328.3	\$330.10	\$330.10

CURRENCIES				
	U.S. DOLLAR		STERLING	
(London)	Apr 23	Previous	Apr 23	Previous
\$	-	-	1.282	1.2775
DM	3.072	3.011	3.845	3.8475
Yen	249.65	248.55	312.25	317.5
FFr	8.365	8.195	11.72	11.77
SwFr	2.5475	2.4935	3.1925	3.185
Guilder	3.4725	3.41	4.35	4.3575
Lira	1,960.0	1,918.0	2,454.0	2,455.0
Bfr	61.7	60.55	77.25	77.5
CS	1.358	1.348	1.7025	1.729

INTEREST RATES			
Euro-currencies		Apr 23	Prev
(3-month offered rate)			
£	12%	12 ^{1/8} %	
SuFr	5 ^{1/8} %	5 ^{1/8} %	
DfE	5 ^{1/8} %	5 ^{1/8} %	
FFr	10%	10 ^{1/8} %	
FT London Interbank fixing			
(offered rate)			
3-month U.S.S	8%	8%	
6-month U.S.S	8 ^{1/8} %	8 ^{1/8} %	
U.S. Fed Funds	7 ^{1/4} %	7.65	
U.S. 3-month CDs	8.10	8.20	
U.S. 3-month T-bills	7.72	7.65	

U.S. BONDS				
Treasury	Apr 23*		Prev	
	Price	Yield	Price	Yield

10%	1987	101 ^{1/2} % ₂	9.801	101 ¹⁷ % ₂	9.571
11%	1992	102 ²⁵ % ₂	11.126	103 ¹ % ₂	10.993
11 1/2%	1995	100 ³ % ₂	11.228	100 ²⁷ % ₂	11.101
11 1/2%	2015	99 ¹³ % ₂	11.315	100 ⁴ % ₂	11.217

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Continued on Page 25

ATTACHED TO:

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Continued on Page 30

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Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

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companies?"

US, Andelsbanken, Andelskassa a.m.b.a.,
Benzon & Benzon, Burmeister & Wain
and aviation Contractor A/S, Berginforma-
tion A/S, C&G Banken A/S, The Chase Man-

Cherninova, Christian Røvsing International Bank, N.A., Codan Forsikring, Controlmark's Sparekasseforening, Dansk Offentlige Danske Provinsbank A/S, DEFS A/S

ringsinstituttet for Industri og Håndværk,
 erer Societetet, Gutenberghus, Handels-
 's Skibsfarve-Fabrik A/S, H. Hoffmann &
 zsen A/S, Kongskilde Koncernselskab A/S.

Ivins Fondsbørs/Copenhagen Stock Exchange Holding A/S, LK-MES A/S, Magasin Du Nord & Thorsen A/S, Nea-Lindberg A/S, Rørvold A/S, Pedersen Maskinfabrik A/S,

... and Co., Sadolin & Holmblad A/S, Sten
SDS, Storme A/S, Superfos a/s, Topsik-
ries.

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hation Bank N.A., Copenhagen, A/S Cheminova, Christian Rovsing International A/S, Christian & Mønstes A/S, Cihbank, A/S, Codan Forsikring, Control Data A/S, Danish Steel Works Ltd., Danmarks Spørgeskemaforening, Dansk Olie & Naturgas A/S, Den Danske Bank, Den Danske Provinsbank A/S, DETS A/S

De Forenede Bryggerier A/S, Finansieringsinstituttet for Industri og Håndværk, A/S N. Foss Electric, Faxe Kalk, Grosserer Societetet, Gulzøberghus, Handelsbanken, A/S Hollæssens, J. C. Hempel's Skibssæbe-Fabrik A/S, H. Hoffmann & Sønner A/S, Jyske Bank, Kemp & Lauritzen A/S, Kongstidende Kæmpefabrik A/S.

The Bank of Copenhagen, Københavns Fondsbørs/Copenhagen Stock Exchange, Larsen & Nielsen Constructor Holding A/S, LK-MES A/S, Magasin Du Nord, McKinsey & Co., Inc., Munberg & Thorsen A/S, Nea-Lindberg A/S, Northern Feather International Ltd., Olivetti A/S, Pedersham Maskinfabrik A/S, P.O. Box No. 609, 80073.

Frank Akeris A/S, A/S Lørdal's Hns. Saltrøe & Co., Sædøin & Holmblad A/S, Simonsen & Weitz Eft. A/S, Sparekassen SDS, Storm A/S, Superfos a/s, Topstikring, Toyota Danmark, Tuborg Breweries.

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the 1990s, the number of people in the United States who are 65 years of age or older is projected to increase from 20 million to 35 million, and the number of people 75 years of age or older is projected to increase from 10 million to 15 million (U.S. Census Bureau, 1996). The number of people 85 years of age or older is projected to increase from 2 million to 4 million (U.S. Census Bureau, 1996). The number of people 90 years of age or older is projected to increase from 500,000 to 1 million (U.S. Census Bureau, 1996). The number of people 95 years of age or older is projected to increase from 100,000 to 200,000 (U.S. Census Bureau, 1996). The number of people 100 years of age or older is projected to increase from 10,000 to 20,000 (U.S. Census Bureau, 1996).

the 1990s, the number of people in the United States who are 65 years of age or older is projected to increase from 20 million to 30 million, and the number of people 75 years of age or older is projected to increase from 10 million to 15 million (U.S. Census Bureau, 1996).

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WORLD STOCK MARKETS

AUSTRIA

Apr. 23	Price	± or
Creditanstalt	350	+2
Giesele	200	+10
Internationale	200	+10
Perinorbank	400	+5
Steierbank	400	+5
Wienerbank	400	+5

BELGIUM/LUXEMBOURG

Apr. 23	Price	± or
S.B.L.	1,910	+10
Belmont	1,910	+10
Belmont	1,910	+10
Belmont	1,910	+10
Belmont	1,910	+10
Belmont	1,910	+10
Belmont	1,910	+10
Belmont	1,910	+10

DENMARK

Apr. 23	Price	± or
Andelsbanken	500	+5
Bank of Denmark	500	+5
Bank of Denmark	500	+5
Bank of Denmark	500	+5
Bank of Denmark	500	+5
Bank of Denmark	500	+5
Bank of Denmark	500	+5
Bank of Denmark	500	+5

FRANCE

Apr. 23	Price	± or
Emprunt 1973	1,200	+15
Emprunt 1973	1,200	+15
Emprunt 1973	1,200	+15
Emprunt 1973	1,200	+15
Emprunt 1973	1,200	+15
Emprunt 1973	1,200	+15
Emprunt 1973	1,200	+15
Emprunt 1973	1,200	+15

NETHERLANDS

Apr. 23	Price	± or
ACF Noiding	204	0.8
ACF Noiding	204	0.8
ACF Noiding	204	0.8
ACF Noiding	204	0.8
ACF Noiding	204	0.8
ACF Noiding	204	0.8
ACF Noiding	204	0.8
ACF Noiding	204	0.8

CANADA

Apr. 23	Price	± or
12-20 Apr 1985	1,200	+15
12-20 Apr 1985	1,200	+15
12-20 Apr 1985	1,200	+15
12-20 Apr 1985	1,200	+15
12-20 Apr 1985	1,200	+15
12-20 Apr 1985	1,200	+15
12-20 Apr 1985	1,200	+15
12-20 Apr 1985	1,200	+15

GERMANY

Apr. 23	Price	± or
AEG Tele	1,150	+0.5
AEG Tele	1,150	+0.5
AEG Tele	1,150	+0.5
AEG Tele	1,150	+0.5
AEG Tele	1,150	+0.5
AEG Tele	1,150	+0.5
AEG Tele	1,150	+0.5
AEG Tele	1,150	+0.5

ITALY

Apr. 23	Price	± or
Banco Com. It.	1,200	+15
Banco Com. It.	1,200	+15
Banco Com. It.	1,200	+15
Banco Com. It.	1,200	+15
Banco Com. It.	1,200	+15
Banco Com. It.	1,200	+15
Banco Com. It.	1,200	+15
Banco Com. It.	1,200	+15

NETHERLANDS

Apr. 23	Price	± or
ACF Noiding	204	0.8
ACF Noiding	204	0.8
ACF Noiding	204	0.8
ACF Noiding	204	0.8
ACF Noiding	204	0.8
ACF Noiding	204	0.8
ACF Noiding	204	0.8
ACF Noiding	204	0.8

NETHERLANDS

Apr. 23	Price	± or
ACF Noiding	204	0.8
ACF Noiding	204	0.8
ACF Noiding	204	0.8
ACF Noiding	204	0.8
ACF Noiding	204	0.8
ACF Noiding	204	0.8
ACF Noiding	204	0.8
ACF Noiding	204	0.8

NETHERLANDS

Apr. 23	Price	± or
ACF Noiding	204	0.8
ACF Noiding	204	0.8
ACF Noiding	204	0.8
ACF Noiding	204	0.8
ACF Noiding	204	0.8
ACF Noiding	204	0.8
ACF Noiding	204	0.8
ACF Noiding	204	0.8

NORWAY

Apr. 23	Price	± or
Bergens Bank	1,150	+0.5
Bergens Bank	1,150	+0.5
Bergens Bank	1,150	+0.5
Bergens Bank	1,150	+0.5
Bergens Bank	1,150	+0.5
Bergens Bank	1,150	+0.5
Bergens Bank	1,150	+0.5
Bergens Bank	1,150	+0.5

SPAIN

Apr. 23	Price	± or
Bank Bilbao	1,150	+0.5
Bank Bilbao	1,150	+0.5
Bank Bilbao	1,150	+0.5
Bank Bilbao	1,150	+0.5
Bank Bilbao	1,150	+0.5
Bank Bilbao	1,150	+0.5
Bank Bilbao	1,150	+0.5
Bank Bilbao	1,150	+0.5

SWEDEN

Apr. 23	Price	± or
AGA Laval	1,150	+0.5
AGA Laval	1,150	+0.5
AGA Laval	1,150	+0.5
AGA Laval	1,150	+0.5
AGA Laval	1,150	+0.5
AGA Laval	1,150	+0.5
AGA Laval	1,150	+0.5
AGA Laval	1,150	+0.5

SWITZERLAND

Apr. 23	Price	± or
Alusuisse	1,150	+0.5
Alusuisse	1,150	+0.5
Alusuisse	1,150	+0.5
Alusuisse	1,150	+0.5
Alusuisse	1,150	+0.5
Alusuisse	1,150	+0.5
Alusuisse	1,150	+0.5
Alusuisse	1,150	+0.5

AUSTRALIA

Apr. 23	Price	± or
Bank of Australia	1,150	+0.5
Bank of Australia	1,150	+0.5
Bank of Australia	1,150	+0.5
Bank of Australia	1,150	+0.5
Bank of Australia	1,150	+0.5
Bank of Australia	1,150	+0.5
Bank of Australia	1,150	+0.5
Bank of Australia	1,150	+0.5

AUSTRALIA

Apr. 23	Price	± or
Bank of Australia	1,150	+0.5
Bank of Australia	1,150	+0.5
Bank of Australia	1,150	+0.5
Bank of Australia	1,150	+0.5
Bank of Australia	1,150	+0.5
Bank of Australia	1,150	+0.5
Bank of Australia	1,150	+0.5
Bank of Australia	1,150	+0.5

AUSTRALIA (continued)

Apr. 23	Price	± or
Bank of Australia	1,150	+0.5
Bank of Australia	1,150	+0.5
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Bank of Australia	1,150	+0.5

JAPAN (continued)

Apr. 23	Price	± or
Bank of Japan	1,150	+0.5
Bank of Japan	1,150	+0.5
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Bank of Japan	1,150	+0.5
Bank of Japan	1,150	+0.5

HONG KONG

Apr. 23	Price	± or
Bank of China	1,150	+0.5
Bank of China	1,150	+0.5
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Apr. 23	Price	± or
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SINGAPORE

Apr. 23	Price	± or
Bank of Singapore	1,150	+0.5
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SOUTH AFRICA

Apr. 23	Price	± or
Bank of South Africa	1,150	+0.5
Bank of South Africa	1,150	+0.5
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OVER-THE-COUNTER

Apr. 23	Price	± or
Bank of America	1,150	+0.5
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Bank of America	1,150	+0.5

LONDON

Chief price changes

(in pence unless

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RISKS

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Parker Knoll

RTZ

Routemaster

Scott & Rob

Ex. 1974 1985

BICC

BOC

Blue Circle

Brit. Home St.

Brown (Matthew)

Clarke (Clement)

Cons. Gold Flds

Eastern Prod.

Lancs

Moss Bros.

Ocean Trans.

Pent. Inds.

Pineapple Dance

Powell Duffryn

Stack Co.

Tate & Lyle

Thorn EMI

Worthing

FALLS

BICC

BOC

Blue Circle

Brit. Home St.

Brown (Matthew)

Clarke (Clement)

Cons. Gold Flds

Eastern Prod.

Lancs

Moss Bros.

Ocean Trans.

Pent. Inds.

Pineapple Dance

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Assets & Emph. Fl.	74.2	79
Capital Reserve	55.2	55.5
Commodity & Emph.	74.8	79.1
General	103.3	110

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RESIDENTS

AA Friendly Society
Clovenstone Hoyt M & E ten Moy
PO Box 93, Lincoln CP2 4HW.
AA Friendly by April 1.

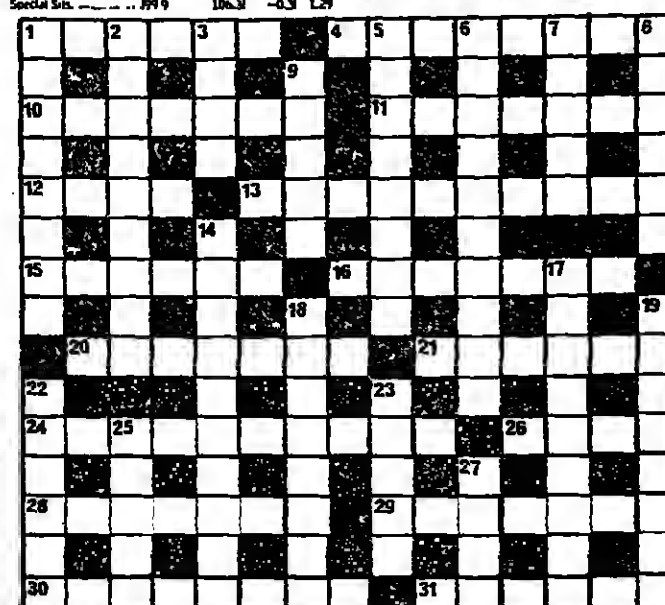
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Property Fund	£23.05
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Property Acc.	27.28
Equity Acc.	80.0
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Money Fund	198.9
Prav. Fd. Ser. 4	92.5
Equity Ser.	80.0
Unit	228.5
Cont./Unit Ser. 4	178.4
Fluted Int. Fd. Ser. 4	163.9

1 Splendid girl has to go

1. Splendid girl has to eat
outside (6)

- 9 Settled in dead awkward
 10 surroundings, is fair (8)
 11 Reception grievous pleasure
 12 (1)
 13 Bishop may be taking pains
 14 and Queen," the Spanisli
 15 scoffed (7)
 16 They may enjoy things
 17 on the last bus (8)
 18 "Crazy Calm," the clergyman
 19 goes on, "is incorrect" (10)
 20 Act decidedly in the new
 21 collared shirt (8)
 22 Collaps of plot to bring back
 23 knots of lace (7)
 24 The vicar takes some tongue
 25 licks (7)
 26 The sort of crab her boy is
 27 upset by (6)
 28 Not having much moose
 29 enjoyed life, being
 30 esmeral (10)
 31 Fenny the swimmer is to
 32 be found to the Isle of Man (4)
 33 Naughty books 1 race
 34 (4)
 35 A man to make a distur-
 36 bance, he defends his
 37 country's rights (7)
 38 Then to touring
 39 right into Land's End (8)
 40 Seeing soldier to broken car-
 41 is distressing (8)
 42
 43 **DOWN**
 44 1 When depressed, collapses
 45 with humiliation (6)
 46 Loni naive cook a card to
 47 (4)
 48 Retreat, concerned with
 49 returning in good condition
 50 (4)
 51 In one document, half
 52 the figures are described
 53 minutely (8)
 54 Not taught nude act, due to
 55 shape" (10)



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International Growth	179.2	84.3	-
Income & Growth	151.3	69.40	-
Special Exposure	151.4	59.0	-
Asian Growth	150.2	71.0	-
Japan Growth	150.2	71.0	-
European Growth	150.8	70.8	+0.0
UK Growth	157.4	70.8	-
Special Income (Unit)	150.0	67.25	-
Practical Return, Units	71.8	76.0	-
Pratt Trust Managers Ltd. (a)(x)(x2)			
252, High Holborn, WC1V 7ES.			01-46
Pratt Growth Fd.	82.3	80.50	-
Accum. Units	82.4	79.3	-
Pratt Growth Fd.	82.3	79.3	-
Pratt Unit Tr.	81.1	97.0	-
Accum. Units	82.3	161.9	-

هَذَا مِنْ الْأَمَلِ

FINANCIAL TIMES SURVEY

Insurance and Insurance Broking

The emergence of the megabroker will be a feature of the 1980s. To compete with these groups that have formed links in the U.S., London brokers will be forced to seek similar mergers or form alliances within their own market.

Realignment set to gather momentum

By John Moore, City Correspondent

ONE OF the most extensive changes in the structure of the international insurance broking community and its business cycle is under way. Not since the late 1970s have the brokers seen such realignments among the major groups.

At the same time a significant turnaround in key areas of the brokers' business, which have been depressed for some time, is now taking place.

In the last few months Alexander and Alexander Services, the world's second largest broker, announced that it was planning to merge with Reed Stenhouse, the Canadian broker which ranks seventh in the world league.

More recently, Sedgwick Group, Britain's largest independent broker, announced that it was planning to merge with Fred S. James, the U.S. broker which ranks sixth among the world's intermediaries.

This regrouping of the buyers of insurance has been largely influenced by the state of the world's insurance markets. Since the late seventies the world's insurance underwriting cycle has been locked onto a downward course.

Insurance companies operating in the important U.S. market, which accounts for about half of the world's total insurance premium of around \$600bn, have experienced unprecedented competition. Rate-cutting on premiums has

been severe at a time when business growth has been sluggish. Results deteriorated. In 1983 the combined operating ratio in the U.S. (claims and expenses as a percentage of premium income) reached 111.9, a new low point—and the worst underwriting results since the San Francisco earthquake and fire of 1906 were recorded. In 1984 that position had deteriorated even further, with a combined ratio of about 117 recorded.

Now there are signs of big changes. While the overall soft market conditions on the direct insurance side are showing only some signs of hardening there is a major shortage of underwriting capacity in the reinsurance market.

Poor underwriting experience among those groups which assume the risks that direct insurers do not wish to retain has led many of these groups to cut back on their business volumes and reduce their exposures on certain portfolios, such as liability business.

With capacity shrinking in the U.S. particularly in the reinsurance market, a fundamental change took place in the London insurance market in December of last year. Rates on reinsurance business rose sharply.

A number of major brokers saw brokerage accounts in the London market grow at over 20 per cent, according to stock-

brokers Simon and Coates. Business which had been retained for some years in the U.S. market was once again flowing to London.

With capacity shrinking in the reinsurance market and conditions remaining competitive in the direct insurance community, the insurance broker has come under pressure from several directions. In the U.S. insurance companies facing costs pressures while conditions are competitive have been re-evaluating their distribution systems. They are questioning whether it is worthwhile dealing with smaller brokers in terms of overall cost.

Already, the number of independent agents is shrinking. Whereas two years ago there were around 40,000 independent agencies operating in the U.S., that number is thought to be down by up to 20 per cent today. In five to seven years' time U.S. professional associations feel that that number could be down to around 20,000. Those that remain are likely to become tied agents to major insurance companies.

The underwriting cycle has already had a considerable impact on brokers' earnings. Brokers are remunerated by commissions paid for by the insurance companies with whom they place their business. With premium rates sliding, commissions calculated as a percentage of the premium, have slid with

the fall in rates.

To a large extent brokers have been cushioned by high interest rates which have allowed them to generate substantial revenue on their cash flows. The UK broker has also gained from the weakness of sterling since a substantial part of the large broker's revenue is generated in dollars.

But now all brokers face other problems. The contraction in reinsurance capacity, particularly on the large "catastrophe" type covers such as liability business, has meant that the brokers have found great difficulty in completing their placements of contracts for clients. These brokers of size, who can use the weight of their overall account as placing clout, have gained while the smaller brokers have been under intense pressure.

Moreover, even those brokers which have exclusive access to

the Lloyd's insurance market have also been under pressure in the past few months. Lloyd's own ability to take on business has been affected by currency movements.

During the last renewal season, when insurance contracts are rated for the coming year, the dollar strengthened against the pound to such an extent that the business volumes of the Lloyd's market showed a vast expansion. Underwriters found themselves bumping up against their premium income limits and were forced to turn business away.

Lloyd's brokers had to look beyond the walls of Lime Street to complete their placements in a reinsurance market which was shrinking.

The small Lloyd's broker, which would otherwise have found some protection through its exclusive access with Lloyd's, had to fight for pos-

sition in the wider insurance and reinsurance markets with the bigger groups.

The independent London-based brokers found that their business has been affected by other factors. Lloyd's brokers, who have had exclusive access to the Lloyd's market, have discovered that their competitive edge has been eroded substantially over the past seven years.

Before 1978, Lloyd's brokers enjoyed rich pickings from the U.S. market. When insurance capacity contracted in the U.S. in the early 1970s, as insurance companies' reserves crumbled with falling stock market values, large lines of business were laid off in London in reinsurance.

The business was channelled through the Lloyd's brokers by the big U.S. brokers who were looking for comprehensive reinsurance protection for their company clients in the inter-

national markets.

Lloyd's brokers reinsured their business into the Lloyd's market and then in turn reinsured Lloyd's underwriters on the same line of business in the international reinsurance markets. Lloyd's brokers were able to earn commissions many times over on one account, by comparison with their U.S. counterpart who was less likely to generate revenues in the same way on his business, largely because of the lack of a fully developed international network.

The London broker with connections at Lloyd's is better placed than its U.S. counterpart in other ways. Despite the problems surrounding individual broking firms in the last few years Lloyd's maintains its dominant market position in marine insurance business and together with London insurance companies insures around 40

per cent of the world's shipping fleets.

The market is strictly controlled and rates are held to economic levels through market agreements no matter what competitive pressures are at work. This provides the London broker with a steady bedrock of earnings at a time when other parts of his business may be hit by other market forces.

The U.S. brokers saw that if they were to maximise the revenue possibilities on their accounts, they needed to forge strong links with the London market and the Lloyd's brokers in order to gain access to the Lloyd's market. The top six U.S. brokers have strong links with the London market, through their own acquisitions

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Insurance Broking alliances			
Year	Acquired	Acquired	Cost (£m)
1978	Frank R. Hall (US)	Ledley & Gledits (UK)	225
1980	Fred S. James (U.S.)	Wigham Polard (UK)	23
	March & Robinson (U.S.)	C. T. Bowring (UK)	2360
1981	Alexander & Alexander (U.S.)	Alexander Howden (UK)	2127
	Justus Insurance Brokers (UK)	Echo Insurance (U.S.)	216
	Hogg Robinson (UK)	Penn General Agency (U.S.)	215
1982	Reed Stenhouse (Can)	Schiff Torrance (U.S.)	62
1983-84	Reed Stenhouse (Can)	Stenhouse Holdings (UK)	222
1984	Alexander & Alexander (U.S.)	Reed Stenhouse (Can)	2230*
1985	Sedgwick Group (UK)	Fred S. James (U.S.)	2220*

When Cuthbert Heath couldn't join the Navy he created non-marine insurance at Lloyd's.

Whether the deafness that kept Cuthbert Heath out of the Navy was the spur to excel in commerce is not important. What matters is that Heath's innovative genius found its true vocation in insurance. His influence was far reaching both for Lloyd's and the London insurance market.

A foretaste of what was to come occurred in 1885 when he was 26, occasioned by a stroke of good fortune.



HAND-IN-HAND

One of the oldest insurance companies, the Hand-in-Hand was looking for reinsurance, but being a mutual, was not allowed by law to reinsure with tariff companies. Heath's father, who was a director, thought of Lloyd's and, naturally, Cuthbert. No Lloyd's underwriter had previously written fire insurance to any great extent: the business of Lloyd's was marine risks. The young Heath's pioneer decision to underwrite the business was not popular, but he followed it by introducing a controversial loss of profits cover. This provoked a terse summons to appear before the chairman of the Fire Offices Committee, to be told that he was "ruining fire insurance". The companies told Heath that his policies were an open invitation to fraud. Politely brushing the protests aside he continued undeterred, and indeed was preparing his next move.

CHARLES PEACE

The notorious murderer and prolific burglar, Charles Peace, was spawning a host of imitators. A broker renewing his fire insurance at the Heath box asked half-jokingly if Heath would also cover against burglary. Considering for only a moment, the famous reply "Why not?" heralded a new era. Following the pattern set by the fire insurance success, the burglary business had expanded by



Charles Peace

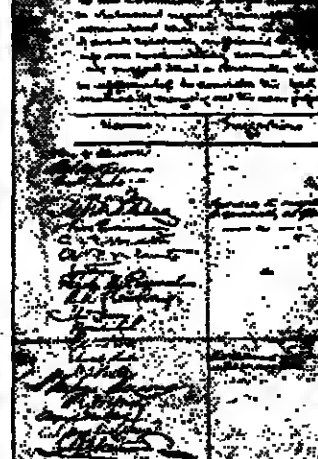
1903 to a total premium of £200,000 spread between thirty companies.

EARTHQUAKE

The new frontiers of non-marine insurance presented new problems. Natural disasters were by their nature unpredictable but Heath tackled these problems in his usual practical way. A factual method of assessing rates was essential. The purchase of rare maps and records went to make up the Heath Earthquake Book, a comprehensive rates guide that shaped the course of modern underwriting. It marked the gradual transformation of insurance men into experts in whatever risks they were covering.

AUDIT

The creation of non-marine insurance at Lloyd's was a boon which highlighted the solvency problem of Lloyd's insurers. Prior to 1908 a deposit of £5,000 was the only requirement for an underwriter. As syndicates grew the larger cash flows were a temptation to the optimistic to make questionable investments with premiums. There was no provision for members deposits to cover anything but marine risks.



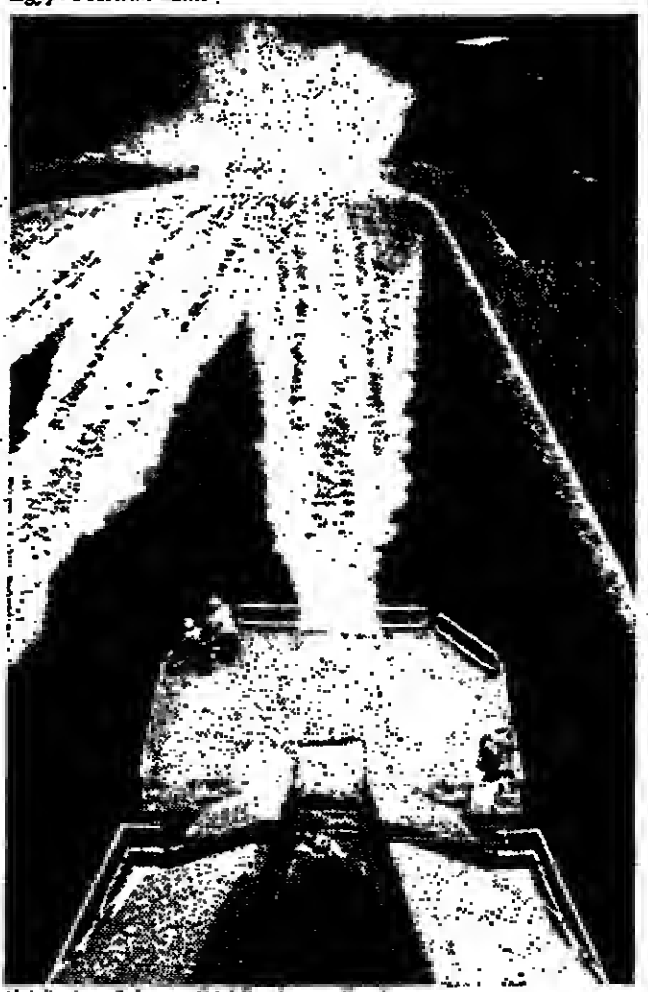
Cuthbert Heath's Audit 'manifesto' which he drew up in 1908 to persuade the Committee of Lloyd's to set up a means of control of individual syndicates.

Heath, who had proved the workability of his system, was the man to whom the Lloyd's special committee turned. By the end of December 1908 all syndicates were instructed to return their audit certificates within three months.

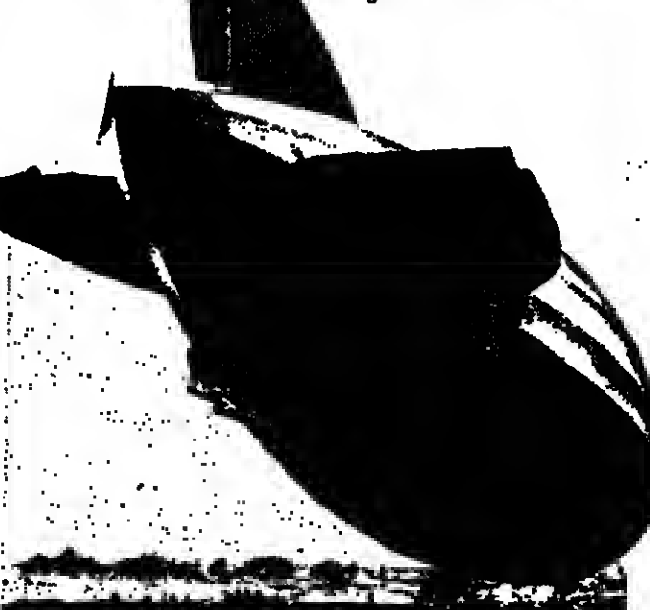
GETTING UP STEAM

Among the growing range of non-marine cover that was placed with the syndicate was Lloyd's first American motor policy. Covering a steam car, its importance is even more relevant in that it was Heath's first link with the influential Chicago broking houses. The consequent introduction to high risk reinsurance business brought with it a sense of trust between the American broker and client and the London underwriter that was to form the cornerstone of Heath's extensive North American business.

The Itaipu dam, on the Parana river that forms the border between Paraguay and Brazil, is the largest hydroelectric development in the world. When the 18 turbines finally come on stream in 1988 it will generate 12,600 megawatts of electricity, six times the power of Egypt's Aswan dam.



German Naval Airship L.53. Cuthbert Heath was the first underwriter to insure against death or damage to property by Zeppelins during the First World War



UNDER FIRE

Zeppelins bombing at Yarmouth and King's Lynn in January 1915 induced a rush of insurance enquiries. Heath, once again ahead of events, had been writing a policy since 1914 that covered damage caused by 'aeroplanes, airships and or other aerial craft'. He soon established leadership in specific insurance against bomb damage.

The full story of Cuthbert Heath is told in a book subtitled 'Maker of the Modern Lloyd's of London', written by Antony Brown. C.E. Heath, the company he so brilliantly founded, continues to prosper.



C.E. Heath
Public Limited Company

Cuthbert Heath House
150 Minorities, London EC3N 1NR

Insurance and Insurance Broking 2

Trading relationships transformed

The Alliances
CHRIS MORRISON

THE PROCESS of major realignment in the international broking community continues with two further deals announced in the past few months. On April 2 the largest broker in Britain, the Sedgwick group, finally found an American partner and announced a proposed £500m merger with Fred S. James.

About the same time Alexander and Alexander of New York disclosed that its own discussions with the Canadian broker Reed Stenhouse had run into some difficulties although it still expects to complete a merger which was first signalled last December.

These two deals are the latest in a line of international broking linkups that have transformed trading relationships, in particular between North America and London, the two largest insurance markets in the world.

The development is only a few years old since until recently the Lloyd's insurance market authorities in London prohibited any foreign broker taking a significant stake in one of its own business producers.

The Americans, who account for around half the world's supply of non-life insurance premiums, were unable to place

business at Lloyd's, a major world insurance market, unless they agreed to share some of their commission with a Lloyd's designated British intermediary.

The restriction eventually went in the late 1970s when Lloyd's backed down in the face of heavy U.S. pressure and the megabroker deals started with the world's number one, Marsh & McLennan of New York, buying out its former close partner, C. T. Bowring of London.

Formal links involving the major American brokers, who had largely outgrown their own domestic markets and were hungry for overseas expansion, and the British brokers, who rely on large amounts of foreign business to provide growth in the London commercial insurance market, have continued ever since.

The trend towards ever larger broking units has been fuelled in part by the increasingly international nature of the insurance business. Multinational companies rely on global risk management programmes and any serious broking player who wants to service these requirements needs to create a worldwide network.

While the logic behind these transatlantic broking marriages has often been strong, the process has been beneficial for some, traumatic for others. M & M's acquisition of C. T. Bowring, after the problems of a hostile bid, was a considerable coup and the deal in fact largely

paid for itself after the New Yorkers sold off the London broker's non-broking assets. But for its long-time American rival, Alexander & Alexander, the purchase of a London broking company, Alexander Howden, proved to be a disaster from which it has still not recovered.

Considerable irregularities were discovered at Howden within months of the sale while the underwriting side of this operation must have seemed to A & A at times like a bottomless pit.

Nevertheless, seemingly undeterred by its unhappy first experience, A & A recently announced another major combination with Reed Stenhouse which is designed to boost its representation in a number of overseas locations, particularly Canada and Australia. Although the discussions between the two companies have hit a number of problems recently, there are still said to be hopes on both sides that the deal can be signed in the near future.

In an increasingly competitive broking climate direct representation in foreign territories ensures a portfolio of business for the parent company. With its former business flows from the largest U.S. brokers being increasingly diverted into their own London subsidiaries, Sedgwick must have been uncomfortably aware of gathering competitive pressures.

The recent loss of key staff in its North American department to Howden must

also have concentrated its mind. For the reasonable size London broker without a transatlantic link, life is undoubtedly becoming more uncomfortable. Although less formal "correspondent" links are common across the Atlantic, the latest mergers will put more pressure on those brokers without corporate attachments and there could be further deals as a result.

The correspondent links, under which brokers arrange, if necessary, to push their own business through each others' channels, can be very close as in the case of Willis Fehrer and the privately-owned U.S. broker Johnson & Higgins. But the other links under which some of the medium-sized intermediaries collect business are less formal and more subject to sudden changes of corporate policy.

Further major deals are always a possibility but the near future could see a period of consolidation as the larger brokers seek to protect their world rankings and fill in those gaps where they feel most at risk from the competition. Bid speculation is likely to linger because a number of the medium-sized London brokers such as C. E. Heath, Elog Robinson and Stewart Wrightson remain independent.

At the other end of the scale there is no shortage of new insurance broker start-ups, particularly since experienced intermediaries are often displaced or affected by a large



A tough renewal season in less receptive market

UK Brokers
JOHN MOORE

BRITISH INSURANCE brokers have faced one of the toughest renewal seasons in years. Insurance business which brokers have for the last seven years or so found easy to place has not found such a receptive market.

An important part of the large British brokers' operations is accounted for by reinsurance business. Through their Lloyd's connections and their strong international networks the British brokers ensure that the risks of the direct insurance companies are distributed across numerous markets in a way which provides some stability in the insurance community worldwide.

Like the direct insurers the reinsurance community has also faced intensely competitive conditions which have led them to cut their rates. But in the last two years there has been a change in the business cycle. Reinsurance capacity is drying up in the U.S. market as those groups which have sustained heavy underwriting losses are reducing their exposures and portfolios of business.

Liability business. Moreover, there has been a heavy demand for reinsurance cover particularly on lines of liability business. Business flows from the U.S. market have risen sharply. Some insurance analysts reckon that brokerage accounts have grown at over 20 per cent.

According to Mr John Barton, chief executive of Jardine Insurance Brokers, 1984 "was traumatic to say the least. Rates have gone up and markets have disappeared. It makes our job more difficult. While a better market place is created there is pressure on the less professional brokers and the smaller brokers who do not have the placing power."

The Lloyd's brokers have faced a particularly challenging time. Business volumes going into the Lloyd's market have been expanded by currency movements. Lloyd's transacts around two-thirds of its business in dollars but is still a sterling-based market.

The strengthening dollar in the earlier part of the year

meant that business volumes jumped sharply at Lloyd's once the U.S. lines of business were converted into sterling. Lloyd's underwriters bumped against their premium income limits in the market and business had to be turned away. London brokers had to find other homes for business at a time when capacity was contracting elsewhere.

At the same time the London marine insurance market is under attack from increased competition. Mutual clubs formed with the participation of shipowners, who insure each other on a mutual basis, are making some inroads. Three large U.S. reinsurance firms switched their accounts to the Swedish Club from the London and U.S. markets.

Combating. The Institute of London Underwriters, representing more than 100 insurance companies operating in the London market, said earlier this year "we have to find an effective means of combating this development beyond trying to restrict the clubs' reinsurance market, which has met with little success."

There is still plenty of reinsurance capacity for marine risks. The Lloyd's and the companies market's attempts to deter the clubs' acceptance of business by collectively raising rates in the reinsurance market on any business offered to it by the clubs has failed.

With some £1.5bn in marine insurance premiums London insurers carry the risks of about 40 per cent of the world's fleets so the new aggression of the mutual has alarmed the London community. And any loss of business could mean that the brokers lose out on the opportunity to arrange reinsurance protections on marine accounts for Lloyd's underwriters.

The other worry for the UK broker is the often doubtful security of the world's reinsurance markets. The recent troubles of the Insurance Corporation of Ireland and its London office sent tremors through the London broking community.

As capacity withdraws the brokers face a stream of bad and doubtful debts which will have to be absorbed on their own accounts. In the coming weeks and months these items are likely to figure prominently in the accounts of major brokers.

Realignment

CONTINUED FROM
PAGE 1

of Lloyd's brokers, shareholding links or a strong mutual trading understanding.

Against this background, the exclusive access to the Lloyd's market of the London-based brokers is crumbling. Those U.S. groups which have placed their business through Lloyd's brokers are now switching their accounts to companies which they directly control in the Lloyd's market.

The British broker in turn is seeking to protect his position in other ways. More than ever the British broker is under pressure to ensure that his offices are as close to his major clients as possible.

Brokers, such as Sedgwick, have realised that they need to have a major presence in the U.S. market in order to retain their accounts and prevent their being poached by rivals in more competitive markets. That is why Sedgwick is embarking on its present merger.

The latest trends in the com-

munity were summed up by Mr Richard Page, president and chief executive of Fred S. James. "I believe that our industry is in a state of flux. We are beginning to see a polarisation where the big brokers are getting bigger and better, the small brokers are getting smaller, and the in between group is disappearing."

As the large brokers grow larger through mergers so the middle range groups are considering regrouping in order to maintain their position. The emergence of the megabroker will be one of the features of the 1990s, in which groups are developing which are handling more premium income than an individual large insurance company.

As London brokers become more vulnerable to competition from those groups which have accomplished U.S. link-ups so they will be forced to merge in their own market or seek a U.S. link. These realignments are likely to accelerate in the coming year.



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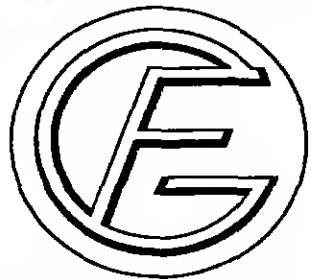
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GREIG FESTER

Sector shrugs off fears over tax relief

UK Life
Insurance
ERIC SHORT

JUST OVER a year ago, Mr Nigel Lawson, the Chancellor of the Exchequer, shocked the life assurance world by suddenly bringing to an end tax relief on all new life contracts—a relief that had been granted for more than a century.

At that time, many commentators within and outside the industry expressed fears over the long-term effect of this body blow to the UK life assurance industry. It was considered a strong possibility that many sources of business would contract, or even dry up.

Twelve months later, it is apparent that, in the short term

at least, these fears have been largely groundless. The UK life assurance industry has proved to be remarkably resilient in adapting itself to a new environment.

The new business figures for 1984, issued by the three life associations, showed that life companies operating in the UK are thriving, despite the loss of Life Assurance Premium Relief (LAPR).

First, there has been a switch of marketing effort by both intermediaries and companies from life to pension products. Sales of self-employed pension contracts soared last year, with new annual premiums rising over 60 per cent and single premiums 40 per cent.

These sales were boosted by fears that pensions were next on Nigel Lawson's hit list for tax reform, fears that proved groundless when he presented this year's Budget.

Many life companies also reported a revival in executive pension sales, reflecting the marketing effort and the economic recovery.

Life companies themselves have been active in redesigning and updating their various individual pension contracts to incorporate the latest developments in flexibility and investment opportunity. Indeed, the ending of LAPR provided the necessary impetus to send companies back to the drawing board and redesign their whole range of life and pension products.

The second feature shown by last year's new business figures was that life sales held up remarkably well in many sectors despite the loss of LAPR.

At one end of the spectrum, industrial life business, contracts with premiums paid weekly or four weekly and collected by agents at the homes

of policyholders, showed a sales drop over the year of only 2.5 per cent. After allowing for LAPR, this represents an underlying sales growth of around 10 per cent.

At the other end of the spectrum, linked life sales fell by just 2 per cent. Again much of this business is sold directly by agents to policyholders and has been boosted by yet more traditional life companies moving into the linked sector.

Although no figures are available, the impression from the industry is that agents of life companies and direct salesmen have maintained their sales of life contracts, while registered insurance brokers and other independent intermediaries have switched from life to pension sales.

The sector hardest hit by the loss of LAPR appears to have been traditional ordinary life business, which showed a drop

in new annual premiums last year. However, comparisons are somewhat misleading since 1983 saw a boom in this sector with the introduction of MIRAS—the new method of crediting tax relief on mortgage interest.

The ending of LAPR has provided an opportunity for life companies to redesign their products. The designers are finding that there is no longer any need to stick to the previous somewhat rigid rules needed to ensure qualification for the tax relief.

Regular premium life policies still provide tax free benefits if held for at least 10 years before cash-in, provided the qualification rules are observed. But failure to observe the rules only results in a higher-rate tax liability. So life companies are now beginning to design two versions of their contracts—one qualifying for higher rate taxpayers and the other non-qualifying for basic rate taxpayers. The latter offers more flexibility over payment of premium and cash-in of benefits.

London and Manchester Group has recently launched a new whole life contract in two versions. No doubt others are on the market or will shortly follow.

Life companies in the UK are very much in the centre of the heralded financial services revolution, the first rumblings of which are now being heard. The objective of providing the public with a whole range of financial services—banking, savings, mortgages, pensions and insurance—under one organisation has been an accepted practice in the U.S. for some time.

Here the various financial institutions are still considering whether to enter this new field and if so which way to do it.

Two different approaches are highlighted by the actions taken by Britain's two largest linked life companies. Hambro Life is to be renamed Allied Dunbar under Mark Weinberg has designed its financial services

package around its life operations, its unit trust subsidiary and its banking subsidiary Dunbar and markets it through its agency force.

Abbey Life under Michael Hether has adopted the view that life companies should "stick to their knitting" and provide a service through links with other institutions. It has linked up with Nationwide Building Society, Britain's third largest, in providing index-linked self-employed pension contracts.

The whole pattern of marketing of life and pension products has undergone changes over the past few years and even more changes are likely over the next few years.

The most dramatic change has been the emergence of building societies as a major seller of personal insurances—life and non-life.

Building societies are now a main supplier of traditional life insurance through promoting the endowment method of repaying a mortgage using a low cost with-profits endowment contract. The loss of LAPR only resulted in a slight drop in sales. Now around 50 per cent of mortgages use low cost endowments for repayment compared with around 60 per cent when LAPR was available.

The intermediary role of building societies will be further boosted under the Green Paper reforms which envisage societies offering a full insurance intermediary service. This dominance is being reflected in the demands by societies for top level commission payments under the ROLAC—Registry of Life Assurance Commissions—proposals.

Indeed, the future of the independent intermediary is very much in question at the moment with competition from societies on one side and unfavourable treatment in the Government's plans for investor protection on the other.

New proposals draw
mixed responseUK Pensions
ERIC SHORT

LIFE companies, together with the rest of the pensions industry, heaved a massive sigh of relief when the Chancellor of the Exchequer, Mr Nigel Lawson, revealed the contents of this year's Budget on March 13.

For months prior to the Budget, the pensions industry had waited in fear that Mr Lawson was going to change the tax structure of pension schemes this year.

In the event, not only did he state that he had no plans to change the tax structure of pension schemes, corporate and individual, he also indicated that there would be no changes during the lifetime of the present Parliament, since he said that if any tax changes were contemplated, then there would first be a Green Paper on the subject, with opportunity for discussion.

Now the pensions industry can devote its attention to the other changes being made or proposed to the structure of pension provision in the UK.

By far the most important of the changes is the Government's radical proposal to introduce a system of personal pensions to operate alongside company pension schemes and the State earnings-related scheme (Serps).

Under these proposals, employees would be able to opt out of their employer's pension scheme and/or Serps and make their own personal pension arrangements.

The opportunities offered to life companies are all too apparent. They already have the monopoly of marketing self-employed pensions, which are akin to the proposed personal pensions. But whereas self-employed pensions have a potential market of around 10m individuals, personal pensions would have a potential market of over 20m.

Therefore, it is something of a surprise to find that the reaction of life companies to the proposals has been mixed.

The nervous, unthinking life companies have welcomed the proposals with open arms. Save and Prosper Group has been among the leading advocates of personal pensions.

Some of the established traditional life companies have expressed their doubts on the effect of the proposals on the

overall pension provision in the UK.

They have seen dangers that employees, doing their own thing could find themselves at retirement, several years hence, with inadequate pensions.

The Prudential spent £400,000 publishing and distributing over 300,000 booklets explaining in detail the Government's proposals and warning that it was not necessarily the crock of gold portrayed by its supporters.

The fears of the pension establishment fall into two main areas.

● The first concerns the method of providing pensions under the scheme. Like self-employed pensions, personal pensions would operate on a money purchase basis, with the contributions invested and the value of the accumulated fund at retirement used to buy a pension.

The amount of the pension will depend on the level of contributions made by the individual and the investment performance of the institution. Experience with self-employed pensions shows that on average the self-employed pay too little, too late and that there is a wide variation in the returns from life companies.

This contrasts with company schemes and Serps where the pension paid relates to an employee's earnings. The pension from a personal pension would be something of a lottery, with some doing well and others less so.

● The second fear of the pensions establishment related to the way in which personal pensions will be sold. Warnings have been made of hordes of life salesmen let loose on naive employees promising them telephone number sized funds if only those employees invest with their life company.

The personal pensions document published last July, though scarce on many details, did show that the Government was aware of the dangers. It emphasised the necessity of employees being given enough information so they could compare personal pensions with benefits under a company scheme.

The document also mentioned the need to protect the consumer, though it did not spell out how this was to be done.

The document did however ask for information on which financial institutions should be allowed to market and offer personal pensions. It envisaged the life company's monopoly being ended and that a wide range of institutions being allowed to

provide personal pensions.

The evidence from the Life Offices Association (LOA) and the Associated Scottish Life Offices (ASLO) concentrated on this latter feature and strongly defended the continuance of the monopoly of life companies.

Their defence centred around the investor protection aspect, though it concentrated more on the supervision by the Department of Trade and Industry rather than on the fact that they do not go insolvent, rather than over the fears of high pressure, misleading sales.

The evidence also set out in some detail how information could be provided so that employees could make their choice, though it stopped short of explaining how this would be put into practice under current sales organisations.

Only a passing reference was made to the talks now taking place to get a system of licensing life salesmen and to the Government's other moves towards investor protection.

It was left to the National Association of Pension Funds in its evidence to list a set of controls on salesmen, including disclosure of commission received by the salesmen.

The Government's White Paper, however, only briefly mentions the subject of personal pensions, stating that the proposed scheme has to be spelt out in detail before it can make any definite proposals.

The White Paper setting out the conclusions of the whole Review of Pensions and Social Security undertaken by Mr Fowler and his team is expected shortly, which will show among other things whether Serps is to continue in its present form, be modified or disappear altogether.

The White Paper has to set out a detailed description of how the personal pension scheme would work in practice, if Mr Fowler is to keep to the timetable set by the Government for legislation to implement the changes being brought in the 1985-86 session of Parliament.

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Insurance and Insurance Broking 5



Mr Mark Weinberg: "We've got a very strong incentive now to come to agreement on reasonable rules"

A need for quick agreement

UK Regulation
BARRY RILEY

"WE'VE HAD" longrunning arguments over many years, and very often a majority have felt a particular way and a minority have said 'no', and then the majority have said 'well, if the minority won't do it, we won't do it either.' Suddenly, we've got something to concentrate the mind."

So says Mr Mark Weinberg, entrepreneur turned regulator. He built up Hambro Life from scratch to become a major force in the life assurance industry, and now he has just been appointed chairman of the Marketing of Investments Board (MIBOC).

The "something" referred to is, of course, the impending legislation on investor protection. Mr Norman Tebbit, Secretary of State at the Department of Trade and Industry, made clear, when introducing his White Paper in January on the regulation of the financial services industry, that he would prefer a system of self-regulation under which practitioners played the major role in regulating their own activities. The practitioners will have to satisfy him that they can do the job properly.

Mr Tebbit has paid the life assurance industry the somewhat surprising compliment of proposing a separate agency to regulate it, along with the unit trust movement. That will be the Marketing of Investments Board, of which Mr Weinberg's MIBOC is the forerunner. All other investment markets will be regulated by another body, the Securities and Investments Board.

It is true that there is a vigorous debate over whether the two bodies should be separate. At the very least, it is likely that the MIB in its final form will have a large degree of autonomy within the SIB, even if it is not completely independent.

The concentration of the mind referred to by Mr Weinberg will arise because the acceptance of the MIB, by the Secretary of State, as an appropriate self-regulatory agency

will not be automatic. Initially, the MIB will have to convince the Secretary of State that it fulfils certain laid down criteria. The first of these, as set out in the White Paper, is that "the body's proposed rules and practices relating to the authorisation of investment businesses... are fair and reasonable."

If the criteria are not met, the Secretary of State would have to regulate the relevant investment sectors himself through his department. Indeed, the DTI already regulates the solvency of insurance companies, and this will continue under the new framework. Mr Weinberg describes his task as being to develop a regulatory structure so that the MIBOC can go along to the Secretary of State in, he hopes, nine months' or a year's time, and present an acceptable set of rules which can be shown to have the broad support of enough companies within the pooled investments industry.

Arguments

Plainly, there are going to be a lot of strong arguments within the sector before an acceptable consensus can be hammered out.

The very appointment of Mr Weinberg, and the members of his board, sparked off fierce criticism from independent intermediaries and life offices such as Scottish Equitable and UK Provident which market exclusively through them. They argued that the balance was "stacked too much" in favour of tied agents.

Elsewhere, some unit trust groups also complain that they are under-represented, and the building societies (which are major marketers of endowment mortgages) were deeply upset at being wholly excluded from the MIBOC in spite of being originally asked to nominate a board member.

The MIBOC will have to take on board at least two major existing debates within the life assurance and broking sectors. One is the argument over the rights and wrongs of controlling commission levels, and the other is the controversy over the licensing of life insurance salesmen.

Since the Life Offices Association's cartel arrangements

collapsed several years ago there has been vigorous argument about commissions. Although the worst fears of a disorderly "bidding up" of commissions have not been realised, there remains anxiety that the Government will step into the commissions vacuum.

In fact, quite a few in the industry would be far from distressed if the Government were to impose direct controls, but Mr Tebbit's White Paper made it clear that this would conflict with the desire to encourage competition.

The Government's preferred alternative is full disclosure of commissions, at least of those received by independent intermediaries. The idea is that investors would then be able to tell whether their advisers were being swayed by the higher commissions paid by particular companies — including overrides and other incentives receivable on high volumes of business.

Independent brokers are apprehensive at being required to disclose commissions, especially when the Government is not suggesting (at least at present) that tied agents should have to disclose their own remuneration. It is generally accepted that potential buyers of policies would be repelled if they realised just how high are the commissions on many types of policy.

Consequently most life insurance companies are backing a commissions "club" called the Register of Life Assurance Commissions (ROLAC). The proposal is that ROLAC members would only have to refer to standardised commission scales, and would not have to spell out commissions in money terms.

A number of important life companies, notably some of the fastest growing operators in the unit-linked sector, are refusing to fall in line.

There is certainly to be a battle ahead before the competitive jealousies can be resolved. Quite apart from the argument over ROLAC, there is the underlying tension between tied agents and independent intermediaries to be resolved. Many of the latter fear that they will get a raw deal if the policies set out in the White Paper are translated into law.

Mr John McKirdy, managing director of Noble Lowndes

Personal Financial Services, expresses a widely-held view when he says of the White Paper: "We have got to try to avoid it becoming a tied agents' charter."

This conflict between different categories of insurance salesmen has spilled over into the debate on licensing of intermediaries. A consultative group under the chairmanship of Mr Norman Graham of General Accident Life has been discussing the subject for some months. A major split became public a few weeks ago when Mr Brian Coote, president of the Society of Pension Consultants, announced that he would be making a direct approach to Mr Weinberg to protest at the direction in which the consultative group is heading.

Requirements

The present legal position is that under 1977 legislation an intermediary can only use the term "insurance broker" if he registers with the Insurance Brokers' Registration Council (IBRC), and complies with the requirements of that body.

In practice anybody can sell life assurance under a title such as agent, consultant or salesman. In any case, registration with the IBRC is more of an indication of honesty than of competence. An expert at motor insurance need not know anything about endowment mortgages or pension plans.

The new regulatory framework will require changes in this area. Already, insurance brokers need to become licensed dealers in securities if they sell unit trusts. So there is a debate about the level of competence required to sell life policies—and the more experienced practitioners are protesting that the Norman Graham group is setting the level much too low.

It is now up to Mr Weinberg and his board members to sort out such disputes with diplomacy backed up by the threat of rough-and-ready direct intervention by the Government if the industry fails to get its act together.

"We've got a very strong incentive now to come to agreement on reasonable rules," Mr Weinberg says.

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Insurance and Insurance Broking 6

Key deals herald major restructure

Divestment at Lloyd's

JOHN MOORE

IN THE PAST year the first significant "divestment" deals have been done in the Lloyd's insurance market. Between now and July 22, 1987 all Lloyd's insurance brokers will have had to divest themselves of their interests in underwriting agencies within the Lloyd's insurance market.

The divestment requirements were ordered by Parliament after evidence was heard before a parliamentary committee, during the passage of the Lloyd's legislation for improving self-regulation in the market, that actual abuses arose in the

relationship between brokers and managing agency companies which they owned. Something like 114 agency companies at Lloyd's, managing 308 insurance syndicates, 71 per cent of the total market, are affected by the divestment proposals and the changes mean a major restructuring of the Lloyd's community.

Among the key deals to take place so far are:

- Sturge Holdings, the independent Lloyd's underwriting agent, has acquired Edwards and Payne (Underwriting Agencies) an underwriting agency which forms part of Sedgwick Group.
- Merrett Holdings, another large independent underwriting agent, has acquired the Pulbrook underwriting agency from Stewart Wrightson, the insurance broker.
- Mr Murray Lawrence, who headed the underwriting

interests of C. T. Bowring, bought out the agency interests from Bowring.

● Cater Allen, the discount house, bought Three Quays Underwriting Management from Sedgwick Group.

The divestment programme has provoked intense controversy within the Lloyd's market. On the trends indicated so far, the agencies are being disposed to independent agencies within the Lloyd's market or other entities inside Lloyd's. Sturge Holdings and Merrett Holdings have consolidated their positions as the largest independent underwriting agency groups at Lloyd's through their acquisitions.

Already, there are fears at Lloyd's that the market could be dominated in the future by a few, very large agency companies which will control the bulk of the underwriting capacity within the Lloyd's community.

Through their deals, the Bowring Lloyd's interests, now run by a partnership headed by Mr Murray Lawrence, and the Sturge and Merrett operations collectively have access to the capacity of more than 4,000 underwriting members out of a total of 26,050.

Lloyd's own divestment recommendations and guidelines for the market have contributed to the potential concentration of underwriting power.

Lloyd's has insisted that the agencies must remain firmly within the jurisdiction of the market and to this end all directors of an agency company must be members of Lloyd's and two-thirds of any agency board must be professionals who work in the market.

This approach is also designed to establish a common interest between those who look after an agency's affairs and the members whose affairs they look after.

Lloyd's is sensitive that the interests of outside shareholders in an agency structure may not be identical to those of the membership and this situation may produce conflicts, particularly if outsiders play an executive role in the management.

Even so, in order to attract outside capital, Lloyd's has permitted non-voting shares to be created in an agency's structure

and there is no limitation placed on the ownership of non-voting shares.

There are a number of implications for the brokers in the current trends. The brokers are retaining their links with members' agencies, through which they introduce members to the Lloyd's market, and roughly 80 per cent of the members of Lloyd's are introduced to the market in this way. The retention of members' agencies by the brokers will give them a large amount of clout in the market.

Moreover, the brokers are actively considering shifting the balance of revenues between members' agencies and managing agencies. Mr Peter Miller, Lloyd's chairman, said last year: "I have received a lot of representations in the market which give force to members' agents do not receive enough remuneration."

Mr Miller added that future tests of whether the revenue sharing arrangements between members' agents of brokers and managing agents contravened the spirit of divestment, would be related to whatever standard revenue sharing arrangements existed in the market.

There are a number of ways in which income is earned and then apportioned between the members and managing agencies. For example, a flat fee of 1 per cent of the members of Lloyd's premium income is

charged and then split 60 per cent to the managing agency and 40 per cent to the members' agency.

A profit commission of 20 per cent of the syndicate's total profit, including investment income, capital appreciation and other revenues, is levied and then split three-quarters in favour of the managing agency and one-quarter to the members' agency.

By simply redrafting an underwriting agency agreement between the brokers' members' agency and the managing agency which he is obliged to sever his shareholding links, the status quo, in terms of revenue contribution to the broker, could be maintained.

Yet, the rise of the mega-agency casts some doubt on whether the power of the broker will be quite the same again. Within Lloyd's there is some concern that not enough outside capital is coming into the market in order to preserve the vitality of a market-place.

Parliament was worried when it considered the Lloyd's legislation about the possible loss of market identity at Lloyd's if the brokers were to continue their shareholding links with agencies in the market and to dilute these links. Now Lloyd's market identity is threatened by the divestment proposals themselves and the way in which the divestment deals have been structured.

Another issue is raised by the



Lloyd's of London.

divestment question at Lloyd's. While Parliament saw potential and actual conflicts of interest between Lloyd's brokers and the insurance interests which they managed in the market, Lloyd's is now considering whether the same conflicts exist when an insurance company gains a large shareholding in a Lloyd's broker.

The recent merger by Sedgwick Group with Fred S. James is leaving the TransAmerica Corporation, a U.S. group with large insurance interests, with 29 per cent of the voting equity of Sedgwick and 39 per cent of the enlarged Sedgwick equity. Sedgwick is paying for Fred S. James through the issue of shares to TransAmerica, James's parent.

Nearly 20 years ago Lloyd's decided that if insurance companies owned brokers there was a danger that those brokers would give and get preferential treatment in the relationship and that a conflict would exist

A rule was established limiting insurance company ownership to 20 per cent. This has been relaxed to 25 per cent over the years and the St Paul Companies of Minnesota, another U.S. insurance group, was allowed to take its stake to over 25 per cent in Minner Holdings, the insurance broker.

In all likelihood the restrictions, such as exist, are likely to disappear. Commercial pressures have meant that it is no longer possible for Lloyd's to prevent outsiders access to its inner market structures.

Lloyd's is working out rules to govern the brokers and ensure that they remain in the market's jurisdiction for regulatory purposes. Once that is accomplished the rule is likely to be dismantled.

Lloyd's faces a challenging period in attempting to ensure that the delicate mechanisms of its market remain in balance at a time when major structural realignments are in progress.

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5 M & G Midland	£1,444	Yes

*Source Money Management February 1985.

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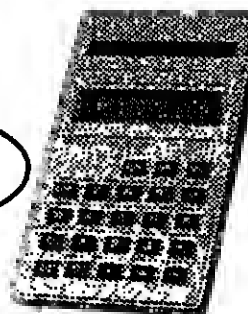
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Companies take a buffeting

Business Developments

ERIC SHORT

THE PAST 12 months have seen some radical changes in the UK personal insurance market as insurance companies have taken a severe buffeting from growing competition and adverse trading conditions.

The most radical moves have come in the house contents sector where companies have been hit hard by rising numbers of thefts.

Figures issued recently by the British Insurance Association showed that UK insurance companies paid out £236.6m on household thefts and all risk claims last year—15 per cent more than in 1983.

Individual insurance companies report claims ratios as high as 300 per cent in some areas—mainly inner city locations.

The reaction has been for many leading companies to make massive increases in content premiums in the high risk areas.

The introduction of post-codes had enabled insurance companies to analyse their claims experience geographically based on these post codes and set their rating systems accordingly. Legal and General has as many as 10 rating areas for its contents rates, while the Prudential has eight areas. Most other companies, however, content themselves with five or six.

As a result of these changes, premium rates in most London areas vary from £13 to £20 per £1,000 sum insured—the highest rates being charged by the Pru and Commercial Union.

Most country areas still pay the same £3.50 rate, but some companies have reduced rates slightly for certain country areas, such as East Anglia, to £3 per £1,000.

The Pru also introduced an automatic £200 excess on theft claims in London and certain other inner city areas, but this move has not yet been followed by any other insurance company.

On house buildings insurance itself, companies have been hit by the severe weather in recent years and by the growing numbers of subsidence claims.

But the only reaction from the insurance companies has been to lift rates this year from £150 to £160 per £1,000 sum insured. The underwriters admit that the minimum increase necessary to halt the rising losses was a 20 per cent rise to £180. But such is the power of the building societies, that the insurance companies decided it prudent to increase to £160 and talk further with the societies.

On motor insurance competition continues unabated as motor insurers battle to increase or hold on to their share of the market. This competition was sustainable while inflation remained low and the number of claims remained

stable. As a result motor premium costs hardly changed during 1983 and rose around 6 per cent last year.

But during the final months of last year the number of claims rose by around 10 per cent, the causes of which insurance companies have been unable to pinpoint. And this higher level of claims has continued during the early months of this year. As a result motor rates should rise substantially this year, except for one factor. Certain banking operations cannot wait to get into the motor insurance market, despite the poor returns coming on motor accounts from the insurance companies.

The Bank of Scotland and the TSB Trust Company have both launched their motor insurance contracts using Royal Insurance as underwriter. However, the Royal Bank of Scotland is going to be its own underwriter for its venture into the insurance field.

In UK commercial insurance, the property account was hit last year by a substantial increase in fire damage.

However, the extreme competition of previous years seems to have slackened slightly, enabling the established UK insurance companies to put up premium rates and still hold the business.

Commercial motor business has also taken a hammering over the past year, though it has intense competition keeping down rates and the more intensive use of vehicles by haulage owners leading to rising claim frequencies.

Employers' liability is suffering from rising numbers of industrial ailments as medical diagnosis becomes more regular and sophisticated.

Asbestosis is still a problem for UK insurers, though it has never assumed the proportions it has in the U.S. Industrial deafness was and still is a major problem, and other dust related diseases, such as synovitis, are causing concern.

The underwriters fear now is of a disease developing that had not been heard of at the time the contract was arranged. Professional negligence is becoming big business in the insurance world, in that more professions need to have it as a condition of offering services, and claims are rising as the public become more litigious conscious against their professional advisers.

Guardian Royal Exchange was hit hard last year by a spate of professional negligence claims relating to the accountancy profession.

In the marine market, hull rates are better, but cargo rates—one area that was profitable—have gone softer. In the aviation market, 1984 was a year of relatively few accidents following the insurance poor experience of 1983.

However, this year started badly. Insurers are looking for modest increases in hull rates. Underwriters are more concerned with the liability rates following large court awards.

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